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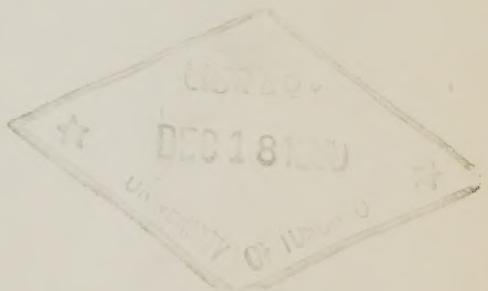
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Canada Auditor General's Office

# Conspectus of the

Report of the  
Auditor General of Canada  
to the House of Commons



Fiscal Year Ended  
31 March 1980

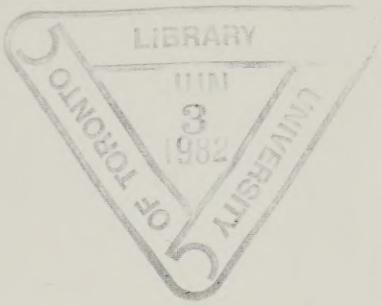




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# Conspectus of the Report of the Auditor General of Canada to the House of Commons

Fiscal Year Ended  
31 March 1980



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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Ottawa, Ontario  
K1A 0G6

To the Honourable the Members of the House of Commons:

Recognizing the heavy demands on your time, we have prepared this Conspectus of the 1980 Report of the Auditor General to the House of Commons to help you identify sections of the Report in which you may be particularly interested. References to the various chapters of the Report appear beside the headings in the Conspectus.

The Conspectus has been prepared primarily for the use of Members of Parliament, but I hope that it will also serve as a convenient guide to the Report for others in the public and private sectors.

  
Michael H. Rayner  
Acting Auditor General of Canada

December 1980



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## MATTERS OF SPECIAL IMPORTANCE AND INTEREST

### James J. Macdonell Retires

On 12 September 1980, James J. Macdonell, D.Admin., F.C.A., F.M.C., retired as Auditor General of Canada after seven years of outstanding service to the nation. A dynamic and enthusiastic leader, J.J. Macdonell capped a career of 50 years in the accounting and management consulting professions by launching the Office of the Auditor General into its second century better equipped than ever to fulfil its role of service to Parliament and the Canadian people. He introduced concepts and methods that have had and will continue to have far-reaching effects on internal and external auditing in both the public and private sectors.

Mr. Macdonell's stewardship is well known and highly respected. He has shown how management in government can be improved to the benefit of taxpayers. Reports of the Auditor General since 1973 provide a history of major events that took place during his term of office. These have had or will have a significant impact on improving accountability to Parliament and the management of resources in the public sector. Highlights include:

- 1973
  - The Auditor General of Canada hosts the first of a continuing series of annual meetings of the Canadian Conference of Legislative Auditors.
  - The Independent Review Committee (Wilson Committee) is established to examine the responsibilities of the Office of the Auditor General, its relationships with government, its procedures for reporting, and the ways in which its independence could be assured.
- 1974
  - The Financial Management and Control Study (FMCS), the first of four major government-wide studies, is launched to examine the quality of financial control in government and to introduce systems-based auditing to the Audit Office.
- 1975
  - The Wilson Committee Report is tabled in the House of Commons, recommending a value-for-money mandate for the Auditor General and a new degree of administrative freedom to ensure his independence.
- 1976
  - The Computer and Information Systems Evaluation (CAISE) study examines the adequacy of controls in computerized processing of financial data.
  - The 1976 annual Report of the Auditor General states: "*Parliament -- and indeed the Government -- has lost, or is close to losing, effective control of the public purse.*" It recommends the appointment of a Comptroller General and Departmental Comptrollers.

- The Lambert Royal Commission on Financial Management and Accountability is created by the Government to address in part the major concerns identified by the Auditor General.
- 1977 ● Parliament passes a new Auditor General Act, embodying the recommendations of the Wilson Committee. It requires the Auditor General to report to the House of Commons on cases in which he has observed that "money has been expended without due regard to economy or efficiency", or "satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented."
- The Study of Procedures in Cost Effectiveness (SPICE) examines whether appropriate systems are in place and operating satisfactorily for ensuring economy, measuring and reporting efficiency, and evaluating program effectiveness.
- 1978 ● The first Comptroller General of Canada is appointed.
- The first comprehensive audits of departments and agencies, and the results of the Financial Information Systems Evaluation (FISE) are reported to Parliament.
- The Centennial Report is published: *"There is, in my opinion, widespread lack of due regard for economy and efficiency in the operations of the Government, and inadequate attention to determining whether programs costing many millions of dollars are accomplishing what Parliament intended."*
- The Centennial Conference of the Office of the Auditor General is held in Ottawa to bring together parliamentarians, public service managers, auditors and others to discuss issues of accountability and audit.
- 1979 ● The Lambert Report is published.
- The Report of the D'Avignon Special Committee on the Review of Personnel Management and the Merit Principle is published.
- The 1979 Report of the Auditor General states: *"The time is right -- and will never be better -- to develop an integrated overall action plan to ensure effective financial, personnel and general management of Canada's publicly-owned funds and resources and -- most important -- to re-introduce inspired leadership and motivation of the human*

*resources dedicated to the service of Canada as represented by its Public Service. This is the challenge -- and the opportunity -- for the new Government and the new Parliament."*

1980 • Canada completes its fourth consecutive three-year term on the United Nations Board of Auditors, having introduced a new systems-based United Nations Audit Manual and a report, to be considered by the General Assembly in 1981, recommending a restructuring of the Board of Auditors.

• The Canadian Comprehensive Auditing Foundation is established, and J.J. Macdonell is elected Chairman.

• "As a continuing testimonial and recognition of the outstanding service of Mr. Macdonell", the President of the Treasury Board announces a new Public Service award consisting of a citation and a \$5,000 honorarium "to be given annually to the federal public servant selected as the outstanding manager of financial and/or human resources."

Throughout his term, Mr. Macdonell worked incessantly to improve the organization of the Office, restructuring it along the lines of major professional firms in the private sector. Careful attention was paid to the recruitment and development of a strong, multi-disciplined professional staff. A close working relationship was established with the public accounting and management consulting professions and hundreds of senior professionals were recruited for tours of duty in the Audit Office under Executive Interchange agreements or professional service contracts. Leading members of the Canadian accounting and consulting professions were recruited to serve on two advisory bodies, the Panel of Senior Advisors and the Independent Advisory Committee on Government Accounting and Auditing Standards.

This Office is proud and privileged to have been associated with James J. Macdonell. He has brought honour to the Office of the Auditor General and has rendered a great service to Canada. He leaves behind both inspiration and challenge.

\* \* \*

Although Mr. Macdonell reached statutory retirement age before the 1980 annual Report was completed, all the observations it contains arise from studies and audits launched while he was Auditor General. As in preceding years, the Report includes the results of both government-wide audits and comprehensive audits of individual entities. Also included are observations arising from auditing activities in organizations not subject to a comprehensive audit this year and a report on the organization and programs of the Audit Office.

The remainder of this Chapter identifies the main features of the government-wide audits conducted this year, describes briefly the six comprehensive audits we performed, and reports on other significant matters involving the Office. The

concluding section addresses major issues arising from our audits over the last several years.

### **Government-Wide Audits**

In 1979-80, the Audit Office conducted government-wide audits of materiel management, energy conservation and the Comptroller General's program for improved management practices. Wherever appropriate, this audit work was closely co-ordinated with our comprehensive audit activities in individual departments and agencies.

#### **Materiel Management (Chapter 2)**

In Chapter 2 of the Report, we set out our observations arising from the government-wide audit of materiel management. The audit objective was to assess and report on the adequacy of systems and procedures for planning and controlling economic and efficient acquisition and use of materiel throughout government.

During 1979-80, the Federal Government spent approximately \$3 billion on materiel, defined as all movable public property, equipment and stores, other than money, provided to an organization. In addition, there are personnel and operating costs associated with materiel management. We estimate the total value of equipment and stores on hand to be about \$15 billion. Economic and efficient management of these resources is essential if Government is to obtain value for the money it invests in materiel. Eight of the 11 organizations included in our audit are responsible for about 80 per cent of the total government expenditure for materiel. The total annual operating and capital expenditures associated with the activities we audited was approximately \$1 billion.

*Based on 28 studies carried out in 11 organizations, we concluded that there were significant weaknesses in the development and use of systems needed to achieve economy and efficiency in materiel management across government. In particular:*

- *managers did not have adequate information to make decisions;*
- *key government directives were not being followed; and*
- *there were no effective means for holding managers accountable for the management of materiel.*

We did find a number of cases where most of the materiel management function was being carried out satisfactorily. In addition, where we pointed out deficiencies in the way in which the function was being carried out, departmental managers indicated their willingness to take remedial action. But we believe that improvements can and should be made through improved information and compliance with policies and through greater concern for accountability for economical and efficient operations.

**The operating environment of materiel management.** Managers in the public service are subject to many controls. The public sector manager is scrutinized by the central agencies, by Parliament and by the public. Central agency and departmental controls limit managerial discretion in allocating funds for different purposes and generate a significant amount of paperwork. The effects of competing policy objectives of different departments on the management of materiel add further to the problems of managing materiel economically and efficiently. Decisions on the most appropriate balance among these objectives are the responsibility of the minister or ministers concerned.

The decision not to choose the lowest-cost course of action, in terms of a department's own needs, should be based on adequate information. Ensuring that due regard is given to economy implies that the costs of satisfying policy objectives, to the extent that it is possible to determine them, are taken into account. Therefore, departmental officials should ensure that:

- the minister or ministers concerned are provided with objective information on all feasible options to enable them to make an informed judgement on the cost of satisfying relevant social and economic objectives; and
- resulting decisions are carried out as economically and efficiently as possible.

This emphasizes the need, in the government context of accountability, to recognize the distinction between due regard for economy and efficiency and achieving economy and efficiency in an absolute sense. Our audit observations should be read with this distinction in mind.

**Audit observations.** Our review indicated that managers' performance tends to be assessed mainly in relation to the quality of service provided to the public. Managers believe that they leave themselves open to criticism if they fail to meet these service expectations. If there are rewards for providing service to the public but not for managing materiel economically and efficiently, managers can be expected to establish their priorities accordingly.

Across departments, we found a widespread lack of information systems for compiling financial and operating data that would enable managers to analyse options and compare their benefits and costs, measure in-service performance and utilization of materiel, and thereby assess the economy and efficiency of materiel management practices. Without such information, it is impossible to build an accountability system for achieving due regard for economy and efficiency.

This absence of information systems, as well as a lack of performance standards, persists despite direction from the Treasury Board. We found that the development of these systems was given low priority by senior managers, perhaps because the lack of them does not produce repercussions, because managers perceive such systems to be an attempt to establish another layer of control that does not help them to manage better, and because they do not feel they have sufficient authority to make decisions based on such information systems.

Across departments, we also found a general lack of compliance with key Treasury Board policies and guidelines governing materiel management. Part of the reason may be that central agencies have tended to issue policies and guidelines in response to both actual and expected problem situations as they were perceived, while not always integrating them with the body of policies and guidelines already in place. Such a system of detailed controls, some of which overlap and even conflict with others, makes it more difficult to hold managers accountable for the achievement of program objectives. Virtually every aspect of sound materiel management is the subject of a Treasury Board policy or guideline. The Treasury Board, however, had no system in place to monitor the total effect of all policies and guidelines in a practical way.

As we noted in Chapter 2, Treasury Board is addressing these problems. However, continuing consideration needs to be given to the complexity of the entire body of policies and guidelines affecting materiel management, including those referring to budget process and personnel management, in order to assess their impact on managerial discretion and accountability. We believe that the management of materiel in the public service can be considerably improved. The greatest opportunity lies in the development of better information and control systems. The needed improvements would not only result in greater economy and efficiency but would also provide better definition of levels of service and a means for making managers more accountable for their actions.

### **Energy Conservation in Government (Chapter 3)**

On 6 February 1975, the Minister of Energy, Mines and Resources announced in the House of Commons an energy conservation program for the Federal Government as the first phase of a broad national conservation program. The objectives of the In-house Energy Conservation Program (IECP) were "to eliminate energy waste and to improve the efficiency of energy utilization in the activities of all federal departments and agencies". The IECP policy was subsequently incorporated in the Treasury Board *Administrative Policy Manual*. Among other things, the Manual noted that the program was to be implemented throughout government "under the general direction" of the Department of Energy, Mines and Resources (EMR) and that EMR was "responsible for the evaluation" of the program. The target of the IECP was expressed in the following way:

Until the end of fiscal year 1985-86, annual energy consumption by federal departments, agencies and Crown corporations shall be held at a level that is at least 10 per cent below that of 1975-76.

The purpose of our audit was to determine whether the development and management of the government-wide program of energy conservation and the measures implemented by departments, agencies and Crown corporations to reduce energy consumption reflected due regard for economy and efficiency in the management of energy resources. In addition, we wanted to determine whether information on government use and conservation of energy, as reported by EMR, was sufficiently complete and reliable to allow a fair assessment of the program's performance.

We examined the co-ordination of program activities and the reporting of results by EMR's Internal Energy Conservation Program section to Cabinet and the public. We also reviewed the implementation of conservation practices and procedures in six organizations.

**Audit observations.** We found that significant progress had been made in implementing energy conservation measures, in establishing data bases on energy use and developing experience and expertise in energy management. But we also found that the information published by EMR on the Government's use and conservation of energy has not been presented in a manner which accurately describes the achievements of the program.

In preparing annual reports on the IECP, the Department of Energy, Mines and Resources has used 1973-74 as the base year for the Department of National Defence (DND) because that Department, which accounts for more than half the reported consumption of the Federal Government, initiated measures in 1973 to reduce energy consumption. Because DND's energy use declined rapidly between 1973-74 and 1975-76 but increased slightly between 1975-76 and 1978-79, the reductions in energy consumption that have been attributed to the IECP have been consistently overstated in relation to the program's target of reducing energy consumption by at least 10 per cent from the 1975-76 level. Whereas a reduction of 11.3 per cent from 1975-76 was reported for 1978-79, our analysis of the data, using a 1975-76 base for DND, showed the reduction was only 4.2 per cent. With DND excluded, the reduction was 12.5 per cent. We concluded that the reporting has not adequately informed the public and the Government about the program's performance.

The Government should be a leader in energy conservation and in the statement to Parliament in February 1975 there were, in fact, specific commitments to put its own house in order and to demonstrate its seriousness in pursuing energy management policies. We believe, therefore, the Government should ensure that its reporting of performance is as adequate and reliable as possible.

Our study also indicated that:

- because it refers only to energy used, and not to the purposes for which it is used, a target based on absolute levels of consumption is not consistent in all circumstances with the program's objectives of reduced energy waste and increased efficiency; therefore, the 10 per cent target, while helpful as a means for launching the program, does not provide a suitable basis for managing government use of energy to 1985-86;
- base year data for 1975-76 are unreliable and do not provide an adequate benchmark for measuring IECP's performance;
- data on energy consumption reported to EMR have been incomplete and their reliability has been uncertain;

- EMR's Internal Energy Conservation Program section has not provided strong central leadership in areas relating to the organization and management of conservation activities in departments, agencies and Crown corporations; and
- there has been no systematic monitoring by the Treasury Board of the extent of compliance with its directives on energy conservation.

In the departments and agencies we reviewed, we found that genuine efforts were being made to conserve energy. Nevertheless, opportunities to achieve further reductions in energy consumption still exist. We are concerned that, without an aggressive and co-ordinated energy management program throughout government, the efforts made and savings achieved during the last few years will not be sustained and the full potential for conservation will not be realized. We are confident that, with appropriate priority and commitment, there is a great deal more that can be done to achieve economies in energy use within the Federal Government. To this end, we have made a number of recommendations in Chapter 3 for improvements we believe would help place energy conservation activities on a sounder footing for the longer term.

#### **Government Initiative for Improved Management Practices (Chapter 4)**

In September 1978, the Comptroller General launched a major initiative commonly known as IMPAC, the acronym for Improvement in Management Practices and Controls. IMPAC was designed to identify the current state of management practices in departments and agencies, to support the development of individual Action Plans for the correction of identified deficiencies and to monitor the implementation of these plans. The departments and agencies are responsible for developing and implementing Action Plans, and the Office of the Comptroller General is responsible for overseeing the process.

Our review was designed to determine whether the actions resulting from IMPAC appropriately addressed the concerns that we have previously reported and to follow up on the general progress of the IMPAC project, as requested by the Standing Committee on Public Accounts. This is the first year that we have monitored the project. IMPAC has been under way since 1978, but it was not until 1980 that it had reached the stage where the first six approved Action Plans for implementing required changes were available for our review.

**Audit observations.** Although IMPAC is still in the early stages, we believe it has already had beneficial effects. It has encouraged departments and agencies to focus on improving management practices and, by integrating improvements required by IMPAC with those independently initiated by departments, greater co-ordination of effort has been achieved. Our findings indicate that IMPAC has provided additional discipline and impetus to existing processes and has frequently extended the scope of management improvements. Also, by monitoring the Action Plans, the Office of the Comptroller General has added independent review to the process of management improvement.

The progress of IMPAC has been slower than initially expected. This is due, in part, to the uniqueness of IMPAC and the extensive detail and broad coverage developed for some of the Action Plans. On the initiative of departments, Action Plans have frequently been extended to incorporate topics other than those recommended by the Office of the Comptroller General. Also, the ability of the Office of the Comptroller General to oversee IMPAC has been limited by a lack of resources available for this purpose.

The Action Plans extend over a long period of time. The latest completion date indicated on the six Action Plans we reviewed is March 1983, but some plans show tasks with no completion dates. From this, we concluded that several of the plans will continue past the March 1983 completion date. The Comptroller General has confirmed that the implementation of Action Plans can take from two to five years.

At the time of our review, 29 government organizations were involved in IMPAC. One department was still in the process of analysing deficiencies. Twenty-one government organizations had agreed on the deficiencies to be covered by the Action Plans and were in the process of developing and obtaining approval of plans. Seven departments and agencies had obtained approval for their Action Plans and were in the process of implementing them. Those departments and agencies with approved Action Plans have taken an average of 16 months to assess their current situation and develop their plans. In the remaining 22 entities involved in IMPAC, we noted that the same process was taking longer.

We found that the scope of IMPAC had not been clearly defined. At present, the project covers only the activities under the direct responsibility of deputy ministers. It does not encompass many of the boards, commissions and agencies which also form part of government operations and are dependent on the public purse. Frequently, many of these entities have been the subject of observations by this Office. We note, for example, that although the Department of Agriculture is participating in the project, such entities as the Canadian Dairy Commission and the Agricultural Stabilization Board are not within the purview of the project.

The scope issue is significant because it defines the boundaries within which the Office of the Comptroller General, through the IMPAC Action Plans, can initiate and monitor management improvements. We believe that the IMPAC project should be extended to the many boards, commissions and agencies closely aligned with departments.

Our review of the contents of Action Plans indicated that most of the deficiencies previously reported by this Office were being addressed. It should be noted, however, that coverage in the Action Plan does not represent assurance that a deficiency will be corrected, and further monitoring will be required after implementation. The only major area not covered by the plans was payroll costs management. In our 1979 Report, following a study of this area, we directed attention to the lack of effective management of human resources in government. Our current IMPAC review revealed that the deficiencies identified last year in manpower planning, training and development, and human resource information systems, with the exception of certain aspects of manpower planning, were

generally not explicitly addressed on an organization-wide basis in the Action Plans. Action to remedy these deficiencies should be integrated with the other management improvements being introduced. We believe, therefore, that the IMPAC project should be expanded to include the co-ordination of improvements in human resource management practices and controls, particularly in the areas of manpower planning, training and development, and personnel information systems.

The management of change is a complex and frequently long process. As we state in Chapter 4, we have just begun to monitor IMPAC and, in particular, its response to issues that this Office has reported to the House of Commons. As requested by the Standing Committee on Public Accounts, we shall continue our monitoring of the progress of IMPAC.

### **Comprehensive Audits**

Chapters 5 to 10 of the annual Report present the findings resulting from comprehensive audits conducted during the last year in the following organizations:

- House of Commons (Chapter 5)
- Department of Indian Affairs and Northern Development (Chapter 6)
- Department of National Revenue - Customs and Excise (Chapter 7)
- Department of National Revenue - Taxation (Chapter 8)
- Department of Supply and Services - Supply Administration (Chapter 9)
- Veterans Affairs (Chapter 10)

This brings to 18 the number of comprehensive audits reported to Parliament since 1978. At the end of each comprehensive audit chapter is a summary of our recommendations and the comments of the audited organization on each recommendation.

**House of Commons.** The comprehensive audit of the House of Commons deserves special reference. In 1979, the Speaker of the House of Commons, with the support of the Standing Committee on Management and Members' Services, asked this Office to undertake a comprehensive study of the organization and administrative systems of the House of Commons. The findings from this audit indicated the urgent need for significant improvements in organization and administration, in financial and personnel management, and in the classification and compensation plans for House officials. The Speaker of the House of Commons indicated general support for the recommendations arising from our comprehensive audit

and also indicated a desire to act promptly to improve House administration. We recommended a specific action plan for implementing the required improvements. Since our audit, the House has made progress in implementing the action plan and has provided the leadership necessary for administrative change, with the appointment of an Administrator, a Comptroller, and a Director General of Human Resources.

**Library of Parliament.** While we were conducting our comprehensive audit of the House of Commons we also completed a survey of the operations of the Library of Parliament at the request of the Parliamentary Librarian. The survey indicated that the Library was reasonably well-managed and that a full comprehensive audit would not have been cost-justified. We were, however, able to make several suggestions for strengthening management's control of library services and administrative activities. We reported the results of the survey in a management letter to the Parliamentary Librarian.

**Comprehensive auditing methodology.** In September 1980, the Auditing Standards group of the Office issued the *Comprehensive Auditing Manual*. This Manual, designed for the use of audit staff in the Office, sets out the comprehensive auditing standards, procedures and process followed by our Office in carrying out audit work. The Manual will form the basis for developmental work in the future.

A series of Audit Guides for the use of auditors in the field accompanies the *Comprehensive Auditing Manual*. These Guides are also important developments in methodology and professional training and will assist us in conducting our audit work more economically, efficiently and effectively. The Audit Guides are currently in varying draft stages. When they are completed, we look forward to making them available for wider use through the Canadian Comprehensive Auditing Foundation and other professional organizations.

The development of the Manual and Guides will help us to ensure more consistent approaches to auditing in the public sector. To fulfil our parliamentary mandate, we shall continue to develop comprehensive auditing methodology and train our professional staff in its application.

### **Other Matters of Importance**

In addition to the government-wide and comprehensive audits referred to above, the Office has been engaged in a number of other important activities during the last year. These are described in this section and include:

- advising the Government on the audit provisions of forthcoming Crown corporation legislation;
- participating in the Treasury Board study of information for Parliament; and

- contributing to the establishment of the Canadian Comprehensive Auditing Foundation.

One additional matter, on which the guidance of Parliament is sought, is mentioned here. It concerns our audits of Indian trust accounts conducted in compliance with a resolution of the House of Commons passed on 15 November 1979.

### **Comprehensive Auditing in Crown Corporations**

Control and accountability of Crown corporations has been a major concern of this Office for a number of years. As we have stated in previous annual Reports (most recently in Chapter 8 of the 1979 Report) and in testimony before the Public Accounts Committee, we think that all corporations wholly-owned by the Government of Canada on behalf of the taxpayers should be subject to comprehensive auditing.

Comprehensive auditing in Crown corporations can help provide the independent assurance Parliament requires as to whether systems and procedures related to financial control are appropriate, whether there is due regard for economy, efficiency and effectiveness, and whether management practices are consistent with the expressed public policy goals of Parliament. This kind of assurance, we believe, is also desirable for directors and shareholders of Crown corporations.

During the 31st Parliament, legislation in the form of Bill C-27 on Crown corporations was introduced in the House of Commons. The Bill provided that Crown corporation auditors should conduct value-for-money audits. The Bill died on the order paper at the dissolution of Parliament in December 1979.

The Government is now planning to introduce new legislation respecting the control and accountability of Crown corporations. Last summer, the President of the Treasury Board, to whom the Prime Minister assigned responsibility for preparing the new legislation, invited the Auditor General to make his views known on Bill C-27. Subsequently, on 10 and 15 July, the Public Accounts Committee held hearings on Chapter 8 of our 1979 Report dealing with the control and accountability of Crown corporations. To assist the Committee's deliberations, we tabled a briefing paper summarizing the Office's position on the application of comprehensive auditing to Crown corporations. On 18 July and 29 August, the Auditor General chaired meetings with the chief executive officers of nine Crown corporations or their representatives for further discussion. The President of the Treasury Board and the Comptroller General attended one meeting and were represented at the other. These discussions, together with the two hearings of the Public Accounts Committee, contributed significantly to the development of the opinions expressed in a submission on the proposed Crown corporations legislation that the Auditor General forwarded to the President of the Treasury Board in September 1980.

We look forward to the new Crown corporation legislation which we hope will be introduced in Parliament during its current session.

## **Information for Parliament**

In 1979, we expressed concern that the important project of improving the information Parliament receives through the Estimates and Public Accounts had not progressed and indeed had stalled almost completely. We welcomed the assignment of this responsibility to the Office of the Comptroller General.

A major reform of the Estimates is now under way. The work is being directed by the Comptroller General, and pilot projects to propose revised Estimates for five departments are being led by his staff. Ultimately, all departments will be involved. It is evident that a sincere and dedicated effort is being made by the Office of the Comptroller General to ensure that the first revisions will be presented to parliamentary committees early in the new year. Our Office is supporting this project, as requested by the Public Accounts Committee in its Third Report to the House, dated 23 March 1979.

The proposed revisions to the Estimates deserve close attention by parliamentarians. The changes are intended primarily to assist Parliament to judge whether departments, agencies and Crown corporations will use the public funds and resources they request annually in an economic, efficient and effective manner. Careful scrutiny of expenditure proposals in the Estimates and of the subsequent reporting of actual results against budget in revised and improved Public Accounts will contribute significantly to re-establishing Parliament's control of the public purse. The timing is right. Governmental systems of financial control and internal reporting are being re-examined as a result of the Comptroller General's IMPAC project. This is the ideal time to ensure that these internal systems not only supply the right information to parliamentarians for voting supply but also meet accountability requirements throughout government.

## **Canadian Comprehensive Auditing Foundation**

In February 1980, the Canadian Comprehensive Auditing Foundation, a non-profit organization, was established to encourage the development of methodology and professional development programs in comprehensive auditing. The founding Board of Governors included the Auditor General of Canada, several of his provincial counterparts, the President of the Canadian Institute of Chartered Accountants, the Comptroller General of Canada and several other senior government officials, partners of public accounting and management consulting firms, internal auditors and members of the academic community.

The Foundation operates as a co-operative agency for audit research and as a forum for the exchange and dissemination of information and comprehensive auditing methodology among members. One of its major responsibilities is the establishment of professional training programs for auditors, management consultants and other professional personnel. More than 350 persons attended its first annual conference, held in Ottawa in September 1980.

The Foundation is financed by individual membership fees, contributions from the federal and provincial governments, and fees paid by other sustaining and subscribing members including public accounting and management consulting

firms and internal audit organizations. Members of the Office and other sustaining members of the Foundation are volunteering their time and professional expertise to assist the Foundation in encouraging the development of comprehensive auditing methodology and professional training and development.

One objective of the Foundation is to provide professional development opportunities for auditors from developing countries. We believe that this opportunity to assist in training auditors from other nations will help to maintain Canada's reputation for excellence in auditing. Through the Foundation, the Canadian International Development Agency has already launched a program to assist developing nations to improve their government auditing and financial management capabilities. Our Office looks forward to participating in this worthwhile and important project.

### **Indian Band Funds**

Under the provisions of Standing Order 43, the House of Commons passed a resolution on 15 November 1979 requiring that the Auditor General conduct an audit of individual Indian trust accounts administered by the Minister of Indian Affairs and Northern Development and provide reports to the House. We found that accounting systems were satisfactory and that transactions for the fiscal year 1979-80 were properly recorded for the Indian Band Funds taken as a whole.

We did not attempt to express an opinion on the receipts and disbursements of the 1,146 individual trust accounts for the current and previous years because of the audit costs involved and the present lack of availability of records. We would appreciate the opportunity to discuss this matter further with the appropriate parliamentary committee as a means of determining what, if any, future auditing of individual Indian trust accounts should be undertaken.

### **Issues Arising From Our Audits**

In earlier Reports we have pointed out the need to identify the underlying causes of deficiencies disclosed by our audits. Drawing accurate and useful inferences from audit findings is difficult enough in the case of complex entities, let alone for government as a whole. Nevertheless, the attempt to identify patterns in audit findings and their underlying causes can help Parliament and the Government improve controls to ensure value for money in public spending. Our government-wide and departmental and agency audits over the last several years have disclosed certain basic deficiencies in public service management:

- the failure of departments and agencies to forge, on their own initiative when ministerial or parliamentary guidance has not been specific enough, clear objectives permitting evaluation and reporting of program achievement and the establishment of guidelines for economic and efficient management of resources;
- the inadequacy of financial and management information systems supplying information within the public service to senior management,

from the public service to ministers, and from the Government to Parliament;

- the lack of attention by departments and agencies to the letter and spirit of Treasury Board policies applicable to important aspects of government management;
- the lack of adequate Treasury Board systems and measures to monitor compliance with its policies and the lack of inquiry into reasons for non-compliance; and
- the slow progress in establishing Departmental Comptroller positions and staffing them with persons of sufficient stature to help deputy heads, who have major policy advisory responsibilities, to develop adequate control systems for achieving economy, efficiency and effectiveness.

These deficiencies are being addressed by several Government initiatives for improved management of public resources. The new policy and expenditure management system introduced by the previous Government has now been in operation for more than one year. Responsibility for co-ordinating the implementation of the recommendations of the Lambert Royal Commission on Financial Management and Accountability and the D'Avignon Special Committee on the Review of Personnel Management and the Merit Principle has been assigned to the President of the Treasury Board. We understand that a progress report and implementation plan will be released in the near future. As reported earlier in this Chapter, the Comptroller General's IMPAC project aims to remedy both government-wide and departmental deficiencies we have identified. Also, his information for Parliament project seeks to improve the information supplied in the Estimates and Public Accounts. Finally, during the last year, the President of the Treasury Board announced plans to establish a new management category in the public service. These plans include the development of an integrated system of performance assessment for senior managers based on accountability for results achieved.

The central question posed in our 1978 Centennial Report was: "Why do serious managerial weaknesses continue to persist, even after years of conscientious efforts to overcome them?" It is to be hoped that the Government's current efforts to strengthen public service management will satisfactorily resolve the weaknesses we have identified. They will do so, however, only if they adequately deal with the underlying causes of the deficiencies. Members of Parliament, particularly the Public Accounts Committee, need a good understanding of such underlying causes as a base for assessing all the various government actions which will be introduced over the next several years. Our observations suggest that inquiry into the ability and motivation of the public service to manage resources effectively will point to the underlying causes for persistent managerial deficiencies.

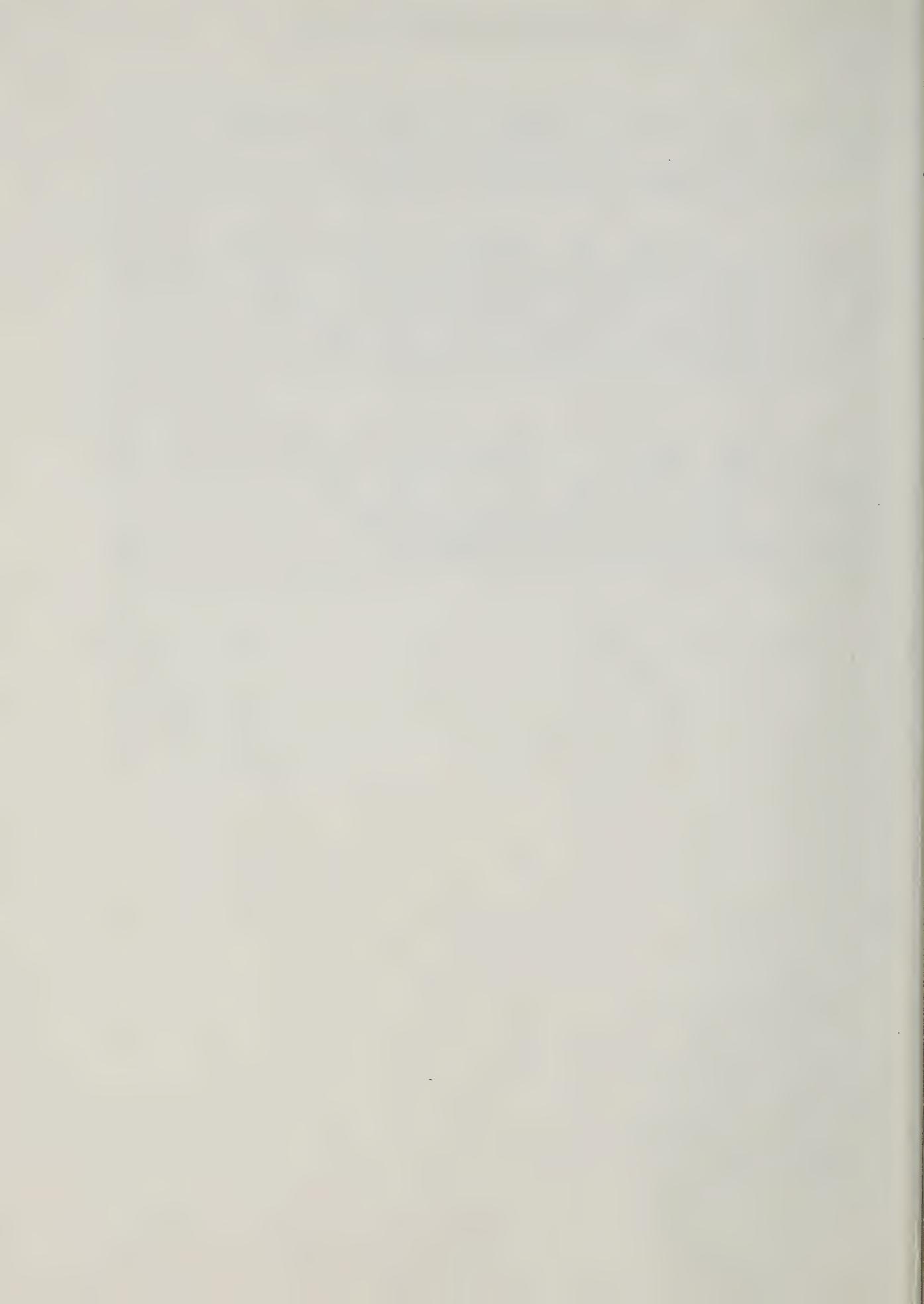
The first area of concern is the ability of public service management to provide appropriate information for value-for-money control and accountability, and to manage resources effectively within the constraints imposed by the complex body

of policies, rules and procedures of the Federal Government and by the external operating environments of departments and agencies. This concern extends upward to the role of ministers in providing specific and clear policy and management objectives that facilitate measurement of program effectiveness and foster economy and efficiency.

The second area of concern is motivation. Any examination of underlying management problems in government must take into account the lack of incentives for effective management of resources. This fundamental problem was pointed out in Chapter 1 of our 1978 and 1979 Reports and in the reports of the Lambert Commission and the D'Avignon Committee. Significant improvement cannot be expected without appropriate motivation at all levels involved, both to encourage good resource management and to ensure positive attitudes toward accountability.

In essence, then, what our observations over the last few years suggest is that the best management systems and controls devised for government will not overcome the fundamental problems revealed by our findings, and confirmed by others, unless and until there is real desire and commitment on the part of decision makers at all levels -- the will, both in Parliament and in the Government -- to create an environment in which public service managers have the necessary means and incentives for achieving the economic, efficient and effective management of public funds and resources.

## **COMPREHENSIVE AUDITS**



## **Introduction**

In 1977, the Auditor General Act broadened the audit of departments and agencies to include "value for money" as a criterion in the examination of government spending. In general, the audit report calls to the attention of the House anything the Auditor General considers of significance to Parliament. The value-for-money provisions involve examination of the adequacy of management and financial control systems to ensure that public funds are spent economically and efficiently, and that there are appropriate procedures for measuring and reporting the effectiveness of programs. As a process to assure Parliament that the information required for accountability of the Government to Parliament is appropriately disclosed and fairly presented, the audit extends the regular legislative audit of financial controls to suggest ways to improve the quality of the information in the Estimates and Public Accounts. Comprehensive auditing, the methodology developed by this Office to carry out the Auditor General's expanded mandate, was endorsed by the Public Accounts Committee of the House of Commons in March 1979. Chapters 5 through 10 provide the results of comprehensive audits of five government departments and the administrative operations of the House of Commons.

This Introduction gives a brief outline of the scope and basic methodology of comprehensive auditing. A more detailed description of comprehensive auditing is set out in Chapters 2 through 7 of the 1979 Report.

Based on an understanding of an organization's objectives, its environment, and the management and operating structures and controls within it, the audit team identifies the functions or processes most important to the achievement of economy, efficiency and program effectiveness. The team then assesses the quality of the planning processes and management controls used to achieve economy, efficiency and effectiveness, and the quality of accountability reporting. In making this assessment, we apply various criteria falling within broad areas described in Chapter 2 of the 1979 Report:

- *Financial Controls* - an evaluation of the controls over revenues, expenditures, assets and liabilities, including the organization of the financial function and its place in the general management structure; the qualifications and suitability of financial personnel to the needs of the organization; the appropriateness of the accounting systems and procedures; and the appropriateness and adequacy of budgeting and financial reporting systems.
- *Reporting to Parliament* - an evaluation of the nature, content, adequacy, reliability and timeliness of financial and related non-financial information presented in reports to Parliament. The principal formal reports to Parliament include the Estimates, the Public Accounts and the Auditor General's annual Report.
- *Attest and Authority* - the expression of an opinion on financial statements and the verification of parliamentary and governmental authority for expenditures.

- *Management Controls* - an evaluation of the system of management information and controls, including the internal audit/evaluation/review functions, so as to ensure there is due regard to economy and efficiency and that appropriate procedures to evaluate and report on program effectiveness, where such are feasible, are in place and operating satisfactorily -- in short, value-for-money auditing.
- *EDP Controls* - an evaluation of controls over financial and other information processed by computers and of management controls over the use of computer-related resources.

In each case, the general audit criterion is what can reasonably be expected of public service management in terms of generally accepted management and reporting practices or standards. To the extent feasible, the audit report suggests possible underlying reasons for any weaknesses found in controls and makes constructive recommendations for improvement. The objective is to identify opportunities for better management of resources. Reporting on comprehensive audits of departments and agencies on a cyclical basis over a number of years gives management the opportunity to resolve any major problems that the audits reveal.

In our audit work in departments and agencies, we try to identify specific types of information, often unique to each entity, that we think should be included in the Estimates. This information would help Members of Parliament gain a better understanding of requests for resources, allocations of resources, and accomplishments from the use of resources. In the departmental audit chapters in this year's Report, we identify and explain specific kinds of information desirable for the Estimates of the Department of National Revenue - Taxation, Veterans Affairs and the Department of Indian Affairs and Northern Development. This type of information will be developed further by departments and the Office of the Comptroller General, as part of a major study being conducted by that Office to revise the form and content of the Estimates and Public Accounts. The chapters on the Department of Supply and Services - Supply Administration and the Department of National Revenue - Customs and Excise do not include our suggestions for improvement because the Estimates of these departments are included as pilot projects in the Comptroller General's study.

### **House of Commons (Chapter 5)**

On 4 April 1979, the Speaker of the House of Commons, with the support of the Standing Committee on Management and Members' Services, asked this Office to undertake a comprehensive audit of the administrative systems and organization of the House. The audit was to be broad in scope, but it was understood that we would not review the procedural aspects of the House, except to the extent required to obtain an understanding of their relationship to administrative practices.

Our audit covered the following areas:

- organization;

- senior-level classification;
- financial management;
- personnel management;
- legislative services and publications; and
- various support services, including cleaning and maintenance, and restaurant and cafeteria services.

Since 1964, when the organization and administrative practices of the House were last examined in a review conducted by the Civil Service Commission, staff has increased threefold and expenditures tenfold. At the present time, more than 3,000 people and a budget of more than \$96 million support the activities of the House. These increases reflect growth in the demand for and complexity of support services to meet the objectives of the House.

**Organization.** In the 1964 study of House administration, it was recognized that the Clerk's principal function was the highly specialized job of being the Speaker's senior procedural adviser. Indeed, the concept of organization outlined in that study was to lighten the Clerk's load by employing professional managers to ensure efficiency in administrative functions. We found, however, that the Clerk, in addition to having heavy procedural responsibilities, had to spend a large amount of time on administrative and personnel matters. We concluded, therefore, that there was a need to separate procedural from administrative responsibilities and that the most appropriate method of doing this would be to appoint an Administrator to provide leadership and direction for the administrative function.

Under the proposed plan of organization, the Clerk would remain the senior permanent deputy head, devoting his efforts to advising and supporting the Speaker and the House on procedural matters. The Administrator, with status equivalent to a deputy head, would report directly to the Speaker and would be responsible for directing and co-ordinating the administrative affairs and support services of the House. The Sergeant-at-Arms, with status equivalent to a deputy head, would also report directly to the Speaker and would be responsible for ceremonial duties, as well as for control of security, access to buildings and other related building services. The Clerk, the Sergeant-at-Arms and the Administrator, with the Speaker as Chairperson, would constitute an Executive Committee for the general, financial and personnel administration of the House.

Our 31 October 1979 interim report to the Speaker and the subsequent comprehensive audit report outlined fundamental weaknesses in the administration of the financial and personnel functions of the House. Our work indicated the need to establish, under the direction of the Administrator, the positions of Comptroller and of Director General, Human Resources. The people in these positions would be responsible for developing and implementing effective financial and personnel practices throughout the organization.

**Senior-level classification.** Since the 1960s, senior-level classification and compensation in the House have been a source of controversy among concerned Members and senior appointed officials. The problem stems, in part, from the existence of two classification systems: one for staff appointed through Order in Council and another for staff appointed directly by the House of Commons. Our study disclosed that, as a result of differences between these two systems, inequities in compensation existed at senior levels in the House. Implementation of a single classification system, under the control of the House, would help to resolve internal inequities.

Legislation and precedent confirm that Parliament is sovereign and independent, and that the Commissioners of Internal Economy are the final authority for all moneys expended in respect of the House of Commons. In contrast, under the Order in Council system of appointment, the executive arm of government retains the right to classify and compensate senior-level positions in the legislative arm. In our opinion, therefore, the Commissioners of Internal Economy should have final authority in respect of all classification and compensation within the House of Commons.

The classification of certain specialized positions in the House has also created equity problems. These stem from the fact that it is difficult to classify these specialized positions using standards developed for the Public Service. Ideally, senior-level positions would be controlled by the Commissioners of Internal Economy through an equitable system. Comparative analyses of senior-level classifications and related compensation ranges should be made with the Public Service of Canada and with other legislative assemblies which may compete for the same skills and talents. The classification system should be simple, credible, and based on factors appropriate to the House, such as knowledge, judgement, consequence of opinions and traditional stature. A consistent, equitable and broad-range compensation structure should be established for approval by the Commissioners of Internal Economy.

**Financial management.** Financial activities were fragmented without a comptrollership function to bind them together. The roles, responsibilities and reporting relationships of employees associated with the financial function were not defined, documented or communicated. Senior staff in the Financial Services Branch did not advise or exercise any functional authority over employees who had financial responsibilities in other branches of the House of Commons. In addition, financial and administrative policies and procedures were not documented.

The budgetary process had not been effective in determining the level of resources required, in controlling resource utilization or in ensuring accountability of managers for performance. There was little involvement in the budgeting process by employees below the director level. The Financial Services Branch had no analytical input or effective challenge in the budgetary process; its involvement was limited to collating the submissions from the three principal directorates into required formats. In addition, the House lacked the kind of reports needed to provide management with information required for budgetary control and for monitoring operational performance. The risks arising out of the

organizational and system weaknesses were increased by the absence of an internal audit function to provide management with an independent review of House operations.

We recommended that a formal review of the organization of the financial function be undertaken, that the key elements of financial management and control be consolidated under the direction of the Comptroller and that effective financial management policies and practices be developed and implemented.

**Personnel management.** The House of Commons is an independent employer. It is not subject to public service personnel legislation or to direction from the Treasury Board with respect to personnel management. The legislative and regulatory framework for personnel management is contained in the House of Commons Act, R.S.C. 1970 c. H-9, and the Standing Orders of the House of Commons.

We found the legislative and regulatory framework, including personnel management policies established by the Commissioners of Internal Economy, to be fragmented, unclear and incomplete. The Standing Orders of the House of Commons provide similar personnel management authority to the Clerk and the Sergeant-at-Arms; however, they do not provide specific direction or mechanisms to ensure the consistent exercise of personnel authority across the House. Nor do they provide any indication of the principles that should underlie the exercise of personnel authority (for example, the merit principle as a basis for staffing).

Essential controls over many aspects of personnel management were weak or non-existent. Most procedures had not been documented or communicated to managers and information systems were inadequate for personnel management.

Our findings indicated that the Personnel Division had neither the responsibility nor the authority to provide a full range of personnel management services. The Division did not possess adequate numbers of staff with the appropriate expertise to provide service in all personnel functions. The Division was essentially inactive in such important areas as employee relations, manpower planning, and training and development. Personnel officials have estimated that upward of 80 per cent of staffing and classification actions in the House have been taken without the involvement of the Personnel Division, which was informed only when pay action was requested. We concluded from our work that there was a need for a fundamental review of the legislative and regulatory framework for personnel management, for improved documentation and communication to employees of key personnel policies, and for a review of the role and organization of the Personnel Division.

**Legislative services and publications.** The Legislative Services Directorate prepares texts of House and committee publications and provides a wide range of communication services to the House and its committees.

The branches of the Directorate operated independently without the direction and discipline of approved objectives, plans and budgets. The lack of planning and

effective financial management has resulted in weaknesses in control over operations which tended to be staffed to meet peak workloads. Systems for measuring and monitoring workloads, productivity and costs were either non-existent or inadequate.

Reforms in the committee system of Parliament suggested by several recent studies may require an upgrading of the role of committee clerks. The secondment for a specific time of promising public servants, who have achieved senior executive or equivalent status, to the position of committee clerk is one approach that might add new vigour to the role of the clerks. These individuals could also provide committee members with a better understanding of government programs and departmental management systems.

Committees currently obtain much of their research assistance from the full-time research staff of the Library of Parliament. Potential committee reforms may result in periodic demands for individuals with specialized research capabilities. The most economical way of obtaining short-term specialist research support would be to contract for it as needed. Co-ordination of this type of research support would call for the services of a full-time Research Co-ordinator.

**Cleaning and maintenance.** House staff felt that they provided high quality cleaning and maintenance services. Their desire for excellence stems from pride in maintaining the Centre Block as a national showplace. We found during our review, however, that management information systems were inadequate for effectively controlling cleaning and maintenance activities. Adequate budgetary control over cleaning and maintenance activities was not being exercised, and there was insufficient information available on the efficiency of the cleaning operations carried out by the staff of approximately 400 involved in this function.

**Restaurant and cafeteria services.** Restaurant and cafeteria privileges are generally considered to be a perquisite of working on Parliament Hill. The restaurant and cafeteria complex is noted for good food and excellent service. Our review showed that little attention was given to the extent of subsidization of food operations. This situation arose from a lack of adequate cost information on restaurant operations and from the fact that the Joint Committee on the Restaurant of Parliament met infrequently. In addition, restaurant management did not have the authority to make selected price increases within approved policy limits in response to changes in market prices of food and beverages. We concluded that there was a need for a review of cafeteria benefits, for regular reviews of food and beverage prices, and for an upgrading of financial management practices to improve control over restaurant and cafeteria operations.

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**Action plan.** The findings from our comprehensive audit indicated the urgent need for significant improvements in organization and administration of the House of Commons, in financial and personnel management, and in the classification and compensation plans for House officials. The Speaker of the House of Commons

indicated general support for the recommendations arising from our comprehensive audit and also indicated a desire to act promptly to improve House administration. We recommended a specific action plan for implementing the required improvements. Since our audit, the House has made progress in implementing the action plan, and has provided the leadership necessary for administrative change, with the appointment of an Administrator, a Comptroller, and a Director General of Human Resources.

### **Department of Indian Affairs and Northern Development (Chapter 6)**

The Department of Indian and Northern Development (DIAND) is responsible for the delivery of three programs: Indian and Inuit Affairs (IIA), Northern Affairs (NA), and Native Claims. During our audit, DIAND's responsibility for the Parks Canada program was transferred to the Department of the Environment.

During 1979-80, the Department was allocated over \$1.1 billion and 7,265 person-years to carry out its programs.

The Indian and Inuit Affairs Program is the most significant of the three departmental programs, in that it accounts for 77 per cent of person-years and 89 per cent of expenditures, when transfer payments to territorial governments are excluded.

**The Department's environment.** In carrying out its activities, the Department works from a legislative mandate comprising 38 federal acts and 13 treaties. It manages large territories, provides services to Indians and Inuit and maintains contact with five federal departments which also deliver programs designed specifically for the same population. The Department also maintains contact with various Indian and Inuit associations whose stated needs may not always coincide with current departmental plans and priorities.

Responding to cultural sensitivities and resolving the conflict between immediate and longer-term priorities add to the complexities of management and to the difficulty of making decisions about the allocation of limited resources. The environment is complex because of the many federal and provincial programs designed for Indians, Inuit and the north, and because wide variations exist in the requirements and goals of native peoples.

According to DIAND, the environment generates controversy between the Department and native peoples because the traditional planning and control requirements of Parliament and central agencies often go beyond the administrative experience of Indian bands. The Department also points out that native people appear to see existing planning and control mechanisms as an attempt by the Department and the Government to limit their ability to decide their own future.

The Department's operating environment thus imposes special demands on its planning and control systems. We took these demands into account in determining the scope of our audit and in developing our audit observations.

**Audit scope.** Our comprehensive audit of the Department of Indian Affairs and Northern Development concentrated on the planning and control systems to support financial, personnel and program management. We also examined the systems used to report to managers, central agencies and Parliament on the Department's activities.

Because the Indian and Inuit Affairs Program accounts for most of the Department's activities, we reviewed the activities of the program in greater detail than those of the Northern Affairs or Administration Programs. We did not review the operations of the Native Claims Program, which accounts for less than one per cent of departmental expenditures.

In response to a specific request of Parliament, we carried out a special audit of Indian Band Funds.

**Program evaluation.** To meet its responsibilities to "assist and support Indians and Inuit" and to "advance the social, cultural, political and economic development of the Yukon and Northwest Territories", the Department undertakes activities that influence nearly every aspect of life for native populations. Thus, the Department's role in relation to Canada's native population must be clear and understood by all parties involved.

We found that departmental managers did not have a common interpretation of what this role was. Managers were not sure whether public funds should be used by DIAND to seek economic and social gains for native people or whether DIAND should simply distribute these funds equitably to native people as they pursue their own objectives.

This lack of specificity in the mandate of the Department has affected the actions and decisions of departmental managers. Resource allocation decisions were made on the basis of priorities determined by the Department to achieve certain socio-economic gains for Indians and Inuit. The actual use of these funds, however, was not systematically controlled beyond ensuring that they went to the intended recipients.

In documents approved by Parliament, published by the Department or prepared for internal planning purposes, we found no clear statements of the socio-economic effects or financial distribution results the departmental programs or managers were expected to achieve in relation to native groups. We therefore concluded that the direction given to the Department was not sufficiently clear to identify what DIAND should be accountable for in relation to its mandate. Further, there was little evidence to indicate that the Department had tried to clarify its accountability to Parliament by making assumptions in regard to its mandate, developing corresponding objectives and seeking approval for them.

We assessed the work of the Department in the program evaluation area and found that, as exploratory studies, the work carried out by the Indian and Inuit Affairs Program was satisfactory. These studies did not, however, measure the socio-economic effects achieved by program activities or the performance against program objectives. We found, as well, that departmental managers were not

systematically using the results of the exploratory studies to improve programs or to modify delivery systems. However, the systems established to carry out evaluation work operated in a satisfactory manner. In some areas, such as the use of advisory committees and monitoring the implementation of recommendations, their practices were well advanced.

**Reporting to Parliament.** The Department has met the format requirements specified by the Treasury Board for the Estimates and Public Accounts. We found two areas, however, where the information contained in these documents could be improved. The program activity structures did not adequately reflect the purpose for which moneys were allocated, and the capital projects listed in the Estimates did not represent a realistic forecast of the capital projects later undertaken. Variances between the Estimates and Public Accounts in respect of capital projects and expenditures were not explained. For the fiscal year 1978-79, 35 projects over \$250,000 were listed in the Estimates for a total of \$19.7 million. Of these, only eight, totalling \$3.9 million, were reported in the Public Accounts, with no explanation for the difference. Other projects, not set out in the Estimates, were undertaken with Treasury Board approval.

**Planning and control.** The Department was devoting substantial effort to planning activities; a considerable amount of information, useful for planning purposes, was available. However, those activities were not being carried out in a systematic and organized manner, and departmental planning efforts at all levels were not consolidated into documents for approval by senior management, communicated for implementation, or used as a basis for monitoring and control.

Systematic methods of control were also generally absent across the Department. Exercise of control depended on the style of individual managers. Management's attention tended to be focused on current capital and program delivery projects carried out in Indian and northern communities, but there was no formal project control system that could have identified potential difficulties in time to avoid them or at least minimize their impact.

An example of the effect of these planning and control weaknesses can be found in the implementation of the policy for transferring program delivery responsibilities to Indian bands. We found that the Department had not forecast the rate of transfer, nor were conditions for transfer specified. Progress of implementation was not monitored and the impact on departmental program delivery costs and operations was not monitored or assessed. We estimated that, following implementation, departmental and band administrative expenditures increased in excess of \$36 million yearly to deliver the same level of activity. The Department had not forecast these costs and had no immediate explanation for them.

**Internal audit.** The principal activity of the Departmental Audit Branch, in 1979-80, has been to determine and obtain approval for a new mandate and for short and long-term audit plans. The mandate was approved in February 1980. It clearly defines the Branch's responsibilities, has been effectively communicated and conforms with the policy and procedures recommended by the Offices of the

Auditor General and the Comptroller General. The reporting relationship of the Branch provides a reasonable degree of independence and scope for the internal audit function, and five-year and annual plans have been approved by the Departmental Audit and Evaluation Committee.

In our view the Branch has undertaken satisfactorily the planning work required to establish an acceptable organization for internal audit.

**Electronic data processing.** We examined the Department's new EDP policies and procedures and found that they met Treasury Board requirements and the EDP audit criteria set out in Chapter 7 of our 1979 Report.

**Financial controls.** Over the last three years, revisions to the financial organization, expenditure accounting and budget control systems have created conditions where departmental control over appropriations and allotments is now generally satisfactory. Serious weaknesses, however, existed in other areas of financial control. In 1979-80, although contributions to Indian bands exceeded \$300 million, the Department could not give assurance that these contributions had been used for the purposes to which they were allocated. Repeated attempts had been made to reach agreements with Indian bands about the kinds of controls that should be in place; however, agreement had not been reached with all the bands involved. We support current departmental endeavours to develop methods of funding control that are more compatible with the requirements and capabilities of individual bands.

Through the Indian Economic Development Account, the Department has approved loans totalling \$81 million. Of this total, the Department intends to write off \$17 million. In our view, a significant portion of these proposed write-offs is due to the Department's inadequate management of the approval of loans, monitoring of projects and collection of loans, as well as its lack of attention to financial controls and systems associated with these receivables.

**Departmental action.** The Department has taken steps to remedy deficiencies identified by our review in the planning and financial control areas. By the time our audit was completed, responsibilities for planning had been assigned, a departmental Directional Plan had been prepared and approved, and operational and annual action plans were scheduled for completion in time for the 1982-83 fiscal year. Changes in funding methods for Indian bands are being discussed with Treasury Board, and a more precise definition of the role of the Department in relation to Indians and Inuit is being sought in discussions with the Government and representatives of Indian and other native groups.

**Payroll costs management.** The Department had carried out reasonable manpower analyses for the Executive (SX), Personnel (PE) and Financial (FI) categories of employees. However, more effort should be focused on the impact on personnel requirements of the policy of transferring delivery responsibilities to Indian bands. The number of public servants and the skills they require are changing and will continue to change over time as a result of implementing this policy.

The Department's Personnel Information System is the principal departmental human resources information system. We found that managers were not aware of what reports the system could produce. Only two of nine regions had complete and reasonably accurate files. Reports were produced using numerical codes which users had to interpret using a coding manual. In our opinion, the Department was not obtaining value for money from the operation of this system.

Since our audit, the Department has drafted a personnel management planning policy and has developed procedures for implementing this policy. The Department has also developed new training policies and procedures that will integrate manpower planning and training and development.

**Indian Band Funds.** On 15 November 1979, the House of Commons requested that this Office examine the Indian trust accounts administered by the Department. We found that accounting systems were satisfactory and that transactions for the fiscal year 1979-80 were properly recorded for the Indian Band Funds taken as a whole.

We did not attempt to express an opinion on the receipts and disbursements of the 1,146 individual trust accounts for the current and previous years because of the audit costs involved and the present lack of availability of records.

#### **Department of National Revenue - Customs and Excise (Chapter 7)**

We conducted our audit of the Department of National Revenue - Customs and Excise over a three-year period. Our 1978 and 1979 Reports presented our findings on the Department's principal revenue collection operations. This Chapter presents the findings from the final year of the three-year cycle; it deals primarily with the Department's efforts to improve its management and operations.

Previous studies have demonstrated the need to improve management control systems. At the same time, external considerations, such as the increasing use by importers and taxpayers of computers and sophisticated transportation technology, have brought about the need for changes in the Department's operating procedures to meet and take advantage of emerging technology.

The task of introducing changes in systems and procedures is complicated by the Department's size and geographic dispersion. Further, the conflict that exists between the need for control to enforce the Department's mandate and the public's desire for responsiveness highlights the need for the Department to consider carefully the selection, design and testing of proposed operating changes which may be attractive to the public but which may weaken control.

In response to the need for change, the Department developed a three-phased strategy to review and improve organization, management control systems and operations. The implementation process is currently under way, with completion planned for 1983-84.

**Audit scope.** The most conclusive report that could be made to the House of Commons would confirm whether the Department's efforts had resulted in improvements in overall efficiency and effectiveness. Since the implementation of the Department's strategy, particularly the development of management control systems, was not complete, such a confirmation was not practical. Instead we concentrated on the process by which operational changes are being introduced in the Department.

Our review covered the reorganization of the financial function and the current status of controls over payroll, the Department's largest expenditure. We reviewed the status of the Department's planning and information systems to determine their current capacity to assist managers in planning, monitoring and controlling the Department's process of change toward improved operational efficiency and effectiveness. We also looked at the planning, control and implementation of changes in operational methods and procedures and the Department's capacity to assess the impact of these changes on its operations. We wished to establish whether the process by which changes have been introduced had improved over time.

**Management review - financial management.** The Department has undertaken a series of initiatives to respond to identified deficiencies in the role of financial management. The role and organization of the financial function has been revised at Headquarters and in some regions, and increased efforts have been made to provide training to financial officers. However, we were unable to find an overall plan designed to co-ordinate and evaluate the progress and effect of the actions taken. We are concerned that the absence of such plans may adversely affect the implementation of desired improvements in the remaining regions.

Although the Department had taken action to address some of the weaknesses in payroll controls disclosed by previous studies of this Office, a recent internal audit disclosed that some key deficiencies had yet to be resolved.

**Management review - management control systems.** Recognizing the need for proper planning, the Department introduced a modified planning process in 1977 and provided planning methodology in the form of guidelines, forecasts and schedules. Although the process has been refined annually to better meet the Department's needs, problems continue to be experienced by managers in interpreting departmental objectives and goals, in linking the outcome of their activities to these objectives, and in using and adapting the process. As a result, the process has not yet been fully successful in producing clear statements, which can be monitored, of the results for which managers are to be held accountable. The Department is attempting to resolve identified problems.

Plans are only one link in the accountability chain. Before they can be used fully as a basis for management control over achievement of results, they must be linked to accurate, timely and reliable information which is compatible with the statement of desired results set out in the plans. The available data concerning the level of compliance with the law and the cost of achieving compliance, as well as qualitative measures indicating how well specific activities are performed and

quantitative measures of those activities, have been recognized by the Department as being insufficient to provide complete and reliable information on its operations. In response to a recently completed study, the Department is in the process of designing and developing improvements to its information systems to meet these needs. In addition, interim steps have been taken to expand the flow of information available to managers.

This work of developing and implementing improved information systems to satisfy the Department's identified needs is planned to take place over the next five years. Until the work on these systems is complete, the usefulness of the Department's existing management control systems will continue to be limited.

In the meantime, management decisions regarding changes in operational methods and procedures are of necessity made on the basis of interpretation of available information that is often incomplete and inaccurate, supplemented by special purpose evaluations and investigations. We therefore paid particular attention to this type of evaluation when reviewing the process by which operational changes are made.

**Operational changes.** The Department recognized that, in the past, there were deficiencies in the manner in which changes had been introduced. These deficiencies included inadequate definition of the objectives of changes, poor evaluation of the success of changes and lack of central control over implementation. Our review of two major systems changes which were introduced in the mid-1970s confirmed that, when major changes in operational methods and procedures were introduced, system design and development procedures were not sufficiently rigorous, implementation was not adequately supervised, and the impact of proposed changes was inadequately evaluated in terms of efficiency and effectiveness.

As part of its efforts to improve control over the planning, implementation and evaluation of changed systems and procedures, the Department developed, modified and formally adopted a project control process. Although the Department has experienced some problems in the application of project management techniques, the process did require managers to adopt a more formal approach to introducing changes. Managers were required to define the problems being addressed by proposed changes, specify the objectives to be achieved and the criteria to be used in evaluating achievement, consider alternative solutions, evaluate results, and present full information to decision makers. To establish the extent of the Department's improvement in performing the steps required by evolving project management policy, we reviewed a sample of major projects currently being conducted in the Department.

Most of the proposed changes to the customs process are based on or involve the continued development and implementation of its computer-based Cargo Entry Processing and Collection Systems (CEPACS). In our 1978 Report, we recommended that the Department carry out a cost-benefit analysis of the system and answer the questions raised by its own criteria before proceeding with further implementation. Because the Department has recently decided to implement this system nationally -- initially as a core system to which additional design features

are to be added as completed -- we selected for review the control exercised over the installation and evaluation of the core system in Toronto in the period 1978 to 1979.

We found that the Department had devoted considerable effort to planning and controlling this implementation. Implementation proceeded according to plan and the bottlenecks and implementation problems that had been experienced in the Montreal region did not recur. The Department developed criteria, defined measures and gathered data to permit assessment of the performance of the core system. However, the evaluations carried out did not fully answer the questions raised by the Department's criteria because of weaknesses in the measures specified and in the design of the evaluations.

In comparison with the earlier introduction of the Examination Release and Appraisal system (ERA) the implementation was more tightly controlled, ensuring that operating procedures were more uniformly applied. In both cases pilot implementations assured the Department that the system was operable but in neither case was the impact of the new system on operating efficiency and effectiveness known. Therefore, while control over implementation and the extent of evaluations were improving, the shortcomings which continue, particularly in respect of assessing the impact of operational changes, are a major concern.

Our review of Excise Branch practices concentrated on its efforts to improve taxpayer audit selection and planning. The Branch has recently conducted an investigation of the impact of its audit selection procedures which could repeatedly exclude certain taxpayers from audit and has also undertaken a major project, the Excise Clientele Profile system. Our review of these projects has led us to conclude that, in comparison to previously acknowledged weaknesses, Excise has now adopted a more formal and rigorous approach to the introduction of operational change. Some concerns remain, however, in the problem definition phase of the audit improvement project and the adequacy of data for evaluation purposes.

**Conclusions and recommendations.** The Department has launched worthwhile efforts directed toward correcting previously identified weaknesses in its management and control systems. However, until development and implementation of its management control systems are complete, the Department will not be in a position to assess fully the impact of its actions. This may lead to situations in which departmental resources are not deployed to maximum advantage or operational changes are introduced that fail to improve efficiency and effectiveness. We are concerned that the Department may not become aware of such instances unless they are of gross magnitude. This situation highlights the importance of evaluating major operational systems changes so that their impact on efficiency and effectiveness is known before they are finally adopted. Our findings indicate that evaluations carried out on major changes have not enabled the Department to determine the full impact of operational changes.

## Department of National Revenue - Taxation (Chapter 8)

The Taxation component of the Department of National Revenue, known as Revenue Canada, Taxation (RCT), has as its objective "to administer and enforce the Income Tax Act, various Federal and Provincial statutes related thereto, including parts of the Canada Pension Plan and Unemployment Insurance Acts and various provincial tax credit plans."

The responsibilities of RCT are further delineated through four sub-objectives, which are:

- to facilitate voluntary compliance with the requirements of the law;
- to encourage voluntary compliance and deter tax evasion and tax avoidance;
- to maintain public confidence in the integrity of the tax system; and
- to provide the direction and support necessary to administer the law fairly, uniformly and economically.

RCT currently operates a Head Office in Ottawa and 28 District Offices and 4 Taxation Centres across Canada. In 1979, more than 15 million returns and 45 million information slips were processed. For the 1979-80 fiscal year, \$43 billion was received by RCT on behalf of the Federal Government, provincial governments, the Unemployment Insurance Account and the Canada Pension Plan. In that period, RCT expended \$389 million and used over 16,000 person-years to complete these tasks.

**Operating environment.** The Canadian income tax system is based on voluntary compliance and self-assessment by individuals and corporations. The nature of this system requires that RCT perform certain associated activities, such as:

- assessing tax returns for compliance with the law and for reasonableness;
- processing instalment payments and collecting taxes due;
- responding to taxpayer enquiries concerning tax laws and regulations;
- conducting audits of individuals and corporations;
- identifying non-filers; and
- enforcing penalties for tax evasion.

There are several significant environmental constraints that affect the performance of these activities. The following factors, over which the Department has limited control, can affect the amount of tax revenue collected despite the resources applied by the Department, or require a changing level or type of administrative effort for a given amount of taxes collected:

- The extent of voluntary compliance and the quality of taxpayers' documentation in support of their tax submissions significantly affects the level of effort required to achieve the Department's objective.
- The use of tax policy in support of a variety of socio-economic programs that are announced in budget speeches and usually implemented on short notice requires that RCT respond rapidly with changes in procedures and regulations.
- The reliance by many provincial governments on the Federal Government to collect provincial taxes and distribute provincial tax credits requires that RCT perform additional collection, analytical and reporting functions. RCT must be able to demonstrate to the provinces that it performs these functions as outlined in agreements with the provinces.
- The division of responsibility and authority among RCT and other organizations for tax policy formulation, prosecutions and appeals requires that RCT maintain close liaison, and in certain cases adjust its activities to comply with decisions reached by these organizations.

Our audit has taken these constraints into account.

**Audit scope.** Because RCT processes and accounts for billions of tax dollars annually, we concentrated our audit on the financial controls over and the reasonableness of the data produced by all significant systems for assessing, collecting, allocating and accounting for revenue. In addition, we reviewed:

- management practices for the development and maintenance of computer systems and for planning future computer processing capability;
- the internal audit function;
- procedures for measuring and reporting program effectiveness;
- development, use and maintenance of RCT's Management Information System;
- the financial and managerial control systems in District Offices and Taxation Centres;
- productivity measurement systems in three Taxation Centres and the labour efficiency levels for seven operating units in the Ottawa Taxation Centre;
- payroll costs management; and
- the information reported to Parliament.

**Assessment, collection, allocation and accounting for revenues.** The Department has a sophisticated and complex system in place to assess, collect and account for revenue and to process the millions of documents received annually. We identified and tested the controls within each of the revenue accounting sub-systems. By reassessing tax returns, confirming taxpayers' accounts, evaluating and testing systems controls, and recalculating the allocation of revenue among various entities, we obtained evidence of an appropriate quality and quantity to support our opinion that, within acceptable audit limitations, and in accordance with the relevant legislation:

- money collected was properly accounted for in accordance with the stated accounting policies of the Government of Canada and on a basis consistent with that of the preceding year;
- initial assessment of individual and corporate tax returns (T1s and T2s) was accurate, and resulting revenues were properly allocated and accounted for;
- individual and corporate taxpayers' accounts and employers' accounts for payroll deductions were properly stated and properly reflected remittances, refunds, assessments and taxpayer account adjustments; and
- refunds, including payments resulting from federal and provincial tax credit plans, were accurately calculated, allocated and paid.

**Management of electronic data processing.** Although electronic data processing is crucial to the Department, we found that, in the event of a disaster such as fire or sabotage occurring in the computer centre, the Department has virtually no plans or capability to recover from the disaster. This risk was brought to the attention of the Department by the RCMP in 1975, by this Office in 1977 and 1978, and again by the RCMP in 1979.

In the management of EDP activities, we found that the Systems Directorate had been able to support departmental requirements to date, but we are concerned about the Directorate's ability to continue to provide efficiently the support needed in the future. Our concerns are based on the weaknesses we observed in the Directorate's procedures and practices for the development of new systems, the maintenance of existing systems, manpower planning and planning for technological change.

**Management audit.** The Management Audit Branch provides management with a planned continuing independent appraisal of the Department's activity. The Branch's audit findings are, without exception, reviewed by senior management. However, the Branch's work would be improved through expanding the scope of financial audit to establish whether the budgetary revenues and expenditures in the financial statements are fairly stated and by ensuring adherence to standards for documentation of audit work.

**Program effectiveness.** Determining the effectiveness of the taxation program requires the measurement of the difference between the revenue actually collected and an estimate of the revenue which theoretically would be collected, given 100 per cent compliance with the law. This difference is called the "tax gap".

The Department's approach to evaluating the overall effectiveness of its program was generally appropriate, but could be improved by providing a better estimate of the portion of the tax gap associated with persons who do not file returns.

**Management Information System.** Over the years, the Department has carried out a number of studies and corrective measures to improve its Management Information System (MIS). Although it has been successful in making the system accurate, thereby satisfying headquarters' needs, it was unable to correct a number of other problems.

Recently, steps were taken by the Department to resolve these problems. The roles and responsibilities for MIS development were clarified, and an information systems strategy was outlined and followed later by a more detailed plan. We will follow up in future audits to determine whether these initiatives will resolve the MIS difficulties.

**District Offices and Taxation Centres.** District Offices and Taxation Centres perform the major processing functions of the Department. They account for 89 per cent of RCT's person-years. The purpose of our audit was to determine whether financial and managerial control systems existed and provided management with assurance that financial and administrative policies and procedures were carried out. During the past two years, we examined two Taxation Centres and twelve District Offices, including the three largest District Offices.

Financial and managerial controls in RCT's District Offices and Taxation Centres were generally operating satisfactorily, except for slow collection of overdue taxpayer accounts. In addition, there was a need to improve operational audit capability and practices.

**Productivity measurement and operational efficiency.** In the main operating sections of the Taxation Centres, the Department had not determined its performance in relation to appropriate engineered standards. Also, insufficient use was made of productivity improvement techniques. Labour efficiency, which we measured against engineered standards for clerks working in seven units in the Ottawa Taxation Centre, the Centre with the largest single concentration of clerical staff within the Department, ranged from 92 to 69 per cent. The weighted average for these units was 82 per cent, which we consider to be evidence of due regard for efficiency. Inferences about the efficiency of the Taxation Centre in general or of the Department as a whole cannot be drawn from our findings because the units examined had special characteristics not to be found to the same extent elsewhere.

**Payroll costs management.** In our preliminary survey of payroll costs management in the areas of manpower planning, training and development and human resource information systems, we noted the following:

- the information system used in the management of the Personnel Administration Branch contained unreliable, inaccurate and untimely information; and
- the systems used to report and control training costs and benefits did not include all costs and provided only limited evaluations of training benefits.

During the course of our audit, the Personnel Administration Branch initiated changes in the areas of weakness identified during our preliminary survey. In our opinion, these changes are likely to resolve most of the concerns identified in that survey. We will follow up in future audits to determine whether this is actually the case.

### **Department of Supply and Services - Supply Administration (Chapter 9)**

The Department of Supply and Services - Supply Administration (DSS-Supply) acquires and provides goods and related services for departments and agencies of the Federal Government. It also provides a number of other services including printing, publishing, traffic management, warehousing, maintenance and repair, expositions, security and assets management.

DSS-Supply is a common service agency operating under a system of revenue dependency. The funds necessary to carry out its operations are obtained by charging customer departments for services provided. Fees for each separate service are based on individual service rates approved annually by the Treasury Board.

Almost all government contracts for materiel and related services are awarded by DSS-Supply. Total procurement for 1979-80 contracted through DSS-Supply was \$2.9 billion. In the 1979-80 Estimates, both expenditures and revenues are \$388 million, with authorized person-years totalling 4,847.

**Audit scope.** Our comprehensive audit of DSS-Supply included a review of its major activities, with particular emphasis on those related to the acquisition of goods and services. We examined planning, control and reporting systems, as well as systems to measure achievement of program objectives.

**Effectiveness evaluation.** DSS-Supply's primary objective, as stated in the 1979-80 Estimates, is "to acquire and provide in the most economical manner goods and services required by departments and agencies, taking into account the contribution of procurement to the realization of national objectives."

Jurisdiction over the acquisition and provision of materiel and services is given to DSS-Supply under the Department of Supply and Services Act. The Act also provides the Minister of Supply and Services with jurisdiction over all matters related to planning and organizing of the provision of materiel and services required by departments. However, the planning and organizing requirements of the Act do not appear in the objectives stated in the Estimates, and DSS-Supply has carried out the role of a service agency, for the most part responding to the demands of government departments.

No clear direction has been given by the Treasury Board or Privy Council Office that would resolve this ambiguity. Some Treasury Board directives have tended to increase uncertainty over the role of the common service agency and its relationships with its customers. Without a clear definition of its role and responsibilities, DSS-Supply cannot measure its effectiveness in planning and organizing the provision of materiel and services.

DSS-Supply has stated that its objective is to acquire and provide goods and services in the most economical manner. However, it had not evaluated the practicality of developing measurement systems to determine whether it was meeting this objective.

The Treasury Board *Administrative Policy Manual* chapter on contracting states that "the purpose of government procurement is to acquire goods and services through the contracting arrangements that best satisfy specific program requirements of the government." These requirements can be deemed to be met if the customer department is satisfied with the level of service provided by DSS-Supply, the usefulness of the good or service provided and the extent to which the supplier complied with the terms of the contract. DSS-Supply had not measured or evaluated customer satisfaction on a consistent or comprehensive basis.

Government policy on contracting requires that it "shall be conducted in a manner which will, when appropriate, relate to national policies and objectives." For contracts with a value greater than \$2 million or with significant socio-economic impact, inter-departmental procurement review committees have been established to take into consideration possible contributions to national objectives. For contracts of less than \$2 million, we found that DSS-Supply had not adequately analysed the effect that its acquisition of goods and services has had on contributing to the realization of national objectives.

Recognizing a need to develop measurement systems to evaluate its effectiveness, DSS-Supply created a Program Evaluation Branch in the fall of 1979. Because the Branch was just commencing its operations at the time of our audit, we are unable to comment on its activities.

**The contracting process.** The Department of Supply and Services Act and government contracting directives and guidelines clearly establish that the overall government contracting responsibility for acquiring goods and services rests with DSS-Supply. DSS-Supply provides, as part of its contracting activity, requirements definition and acquisitions services.

The requirements definition function involves translating customer needs into clear specifications of the item or service to be acquired, together with an estimate of costs. Government contracting policy provides that final approval for requirements definition rests ultimately with customer departments. However, DSS-Supply often acts in an advisory capacity during the requirements definition stage of a contract.

The acquisition function includes all activities directly related to the procurement of a product or service in response to a specific, identified requirement of a department or agency. DSS-Supply is fully responsible for this stage of the contracting process.

For stages in the contracting process clearly within the responsibility of DSS-Supply, we found its activities were generally being carried out in a proficient manner and in compliance with prescribed government standards. Improvements had been initiated in several areas where DSS-Supply believed that revised contracting procedures would result in better overall economy. However, improvements can still be made in evaluating suppliers and in consolidating vendor information.

In areas where responsibilities were shared with other departments, we found that problems existed in the contracting process and, in some cases, purchasing was not being carried out in the most economical manner. These problems were related to the need for:

- a clearer definition of responsibilities for requirements definition for both DSS-Supply and customer departments;
- increased emphasis on considering the total cost of an acquisition over its useful life; and
- development of policies and guidelines for the prompt and systematic evaluation of contractor performance.

**Revenue dependency.** The concept of revenue dependency involves the need to recover all costs incurred in providing services to customer departments and agencies by charging customers for those services. Fees are based on rates and rate structures approved annually by the Treasury Board.

DSS-Supply has concluded that revenue dependency has met its initial objectives of providing total cost visibility, providing Treasury Board with the means to review rate structures and charges, and assisting in reducing total government supply costs. However, certain problems have been created by the rate structure.

Recognizing that modifications to the rate structure were required, DSS-Supply began a Rate Structure Study in 1979. After the results of the study are known, the rates charged to customer departments and agencies will be reviewed and altered, if necessary, to be more in line with the actual level of effort.

**Planning.** DSS-Supply has developed a comprehensive planning process. Strategic planning results in a role and mission assessment every 10 years and a general framework of objectives, presented as a corporate plan, every three years. A rate and person-year plan and an operational plan for each responsibility centre are prepared annually.

As a result of our examination of the planning process and of documentation related to plans, we concluded that the planning structure had, in general, been well developed and was appropriate. We found, however, that the corporate planning process had not maintained an adequate planning horizon and have recommended that the corporate plan should be updated and extended annually.

Although the planning structure was appropriate, the operational plans which resulted from the planning process were not satisfactory for accountability purposes. In reviewing the operational plans, we found that manager's goals for improvement were generally not reflected in budgets and that the goals had not been translated into action plans or milestone dates. We also found that many of these goals were vaguely worded.

**Financial management and control.** The financial performance of DSS-Supply's responsibility centres is monitored regularly, mainly through statements of revenue and expenditures prepared for each centre. Evaluation of management performance is aided by the fact that management has a "bottom line".

We found that the controls over the financial management and information systems were generally adequate. Certain improvements were needed, however, to ensure the completeness and accuracy of financial information.

DSS-Supply is developing a new financial reporting system designed to eliminate duplication and inefficiencies in the existing systems. In addition, guidelines have been issued for the preparation of budgets, but these did not include the extent of documentation and review required or procedures for the preparation of business volume and revenue forecasts.

**Internal audit.** The Supply Audit Branch, which is part of the Program Evaluation and Audit Sector of DSS-Supply, carries out internal audits categorized as financial, functional, operational and directed.

We found that audits were being adequately planned and executed and that significant improvements had been made in establishing audit plans, methodology and procedures for these audits. However, time budgets were not being used to forecast and control time on specific audit projects.

Major observations on operational audits were not being followed up until the next operational audit, in three years' time. The operational audits to date have been carried out on a responsibility or product centre basis and have not included a systematic review and assessment of all department-wide processes and issues.

**Contract audits.** Many government contracts with suppliers include phrases such as "may be verified by government audit", giving DSS-Supply authority to carry out contract audits. If such audits of suppliers are considered necessary, they are, in most cases, conducted by the Audit Service Bureau (ASB) of the Services Administration of the Department of Supply and Services. The value of contracts audited during 1979-80 amounted to \$316 million; audit fees paid to ASB by DSS-Supply totalled \$1.7 million.

DSS-Supply has set a dollar limit to establish which contracts are to be audited by ASB. This limit had not been cost-justified within the past two years to determine whether the audit coverage was too little or too much and whether the most suitable types of contracts had been selected for audit.

On completion of contract audits by ASB, no centrally approved procedures existed to control refunds, if moneys were determined to be owing to the Crown. DSS-Supply kept a memorandum record of refunds owing, but its role in the collection process was unclear, and there was no adequate provision for ensuring that all amounts receivable were subsequently collected.

**Stocked Item Supply.** Commercial products in wide general use throughout government are acquired by DSS-Supply, stored in regional warehouses and 10 self-service stores, and sold from these locations to customer departments and agencies. Control over these inventories is exercised by Stocked Item Supply (SIS), which is a part of the Warehousing and Distribution activity carried out by the Supply Administration. SIS revenues were \$45 million in 1979-80; inventories at 31 March 1980 were \$14 million.

A centrally maintained computer network system carries out all record-keeping and accounting for SIS and provides demand forecasting and inventory management facilities. However, regional supply centres have authority over stock levels and order quantities.

We found that there were no established criteria for the selection of products to be stocked. We also found that certain costs in the SIS computer system were outdated; other relevant costs were not represented in the inventory formulas and hence did not influence reorder quantities or frequencies. The mathematical formulas that forecast demand, and with this information determine safety stock levels and order quantities, were not satisfactory. Unreliable information produced by the formulas in the present system had resulted in a general lack of user acceptance of the system.

We found that the performance measurement system for staff involved in stocked item supply was not satisfactory. Work measurement techniques were not used to help establish reasonable productivity levels, and weighting factors were not used in measuring stocked item supply performance.

**Payroll costs management.** Our audit focused on three major areas of payroll costs management: manpower planning; training and development; and human resource information systems.

We found that operational goals were often expressed in terms that made it difficult to determine how many or what kind of staff were needed to achieve the goals. In developing work plans to meet each operational goal, DSS-Supply did not always specify the number, category and level of staff required to carry out the plans. In addition, DSS-Supply had not developed plans to ensure that appropriate individuals would be available for key positions.

Although future staff needs and related training requirements had not been determined, DSS-Supply had identified its present training and development needs and had established procedures for evaluating and reporting the effectiveness of its training and development programs.

The Personnel Information System in use at the time of our audit was not meeting the needs of its users. As a result, in June 1980, DSS-Supply acquired a new system which is expected to be fully operational by April 1981.

### **Veterans Affairs (Chapter 10)**

**The Department and associated agencies.** This Chapter contains the major observations and recommendations arising from our comprehensive audit of Veterans Affairs, a portfolio consisting of the Department of Veterans Affairs and four associated agencies: War Veterans Allowance Board, Canadian Pension Commission, Pension Review Board and the Bureau of Pensions Advocates. Throughout this Chapter, references to Veterans Affairs include the Department and associated agencies.

Veterans Affairs is responsible for providing support for the economic, social, mental and physical well-being of veterans and their dependants and for providing service-related death and disability pensions. This requires the administration of more than 20 Acts with associated Regulations.

**Current environment.** The need for providing ongoing care to veterans has brought about fundamental changes in the operations of Veterans Affairs. As veterans have grown older, their specialized health care and financial needs have changed, causing services to be phased out or transferred and new services to be planned, developed and implemented.

In October 1976, the Minister of Veterans Affairs announced plans for the relocation of Headquarters to Charlottetown, Prince Edward Island. The original target date for relocation was 1981 but, for reasons beyond the control of Veterans Affairs, the move for the larger organizational units has been deferred to 1982 and 1983.

Other changes having a major impact on Veterans Affairs include:

- transfer, mainly to provincial jurisdictions, of a number of departmental hospitals and homes;
- integration of the Treatment Services and Veterans Services Programs;

- regionalization of the Department's field operations;
- development of new computer systems; and
- legislative amendments relating to disability pensions and war veterans' allowances.

**Audit scope.** Our comprehensive audit of Veterans Affairs concentrated on its two major programs: the Veterans Affairs Program (Department of Veterans Affairs) and the Pensions Program, accounting for more than 97 per cent of the dollars and person-years.

Because of the changing environment, we placed particular emphasis on examining the planning processes and on the financial and other management control systems in place to report to senior management, central agencies and Parliament on the activities of Veterans Affairs. Our examination included reviews of operations both at Headquarters in Ottawa and at a number of regional and district offices.

**Relocation of Headquarters.** We found that the Relocation Task Force set up by the Department had established an effective project planning system to address relocation tasks and provide for an orderly relocation. However, although the task force reporting system reported by sub-project, it was not comparing overall progress achieved to related plans. Information on relocation is of importance to Veterans Affairs in terms of measuring the impact of the change and could be useful to other government organizations planning decentralization of activities.

**Planning.** During the past few years, the Department and associated agencies have improved their capacity to engage co-operatively in short-term operational planning. We were advised that, because of the separate legislative mandates, co-ordinated strategic planning for the Department and associated agencies was not carried out.

We found that planning in the Department suffered because of inadequate resources. There was also insufficient involvement by senior financial officials to provide financial evaluations of policy initiatives.

**Program effectiveness.** The program evaluation group, operating since 1976, has been developing its capability to undertake program effectiveness evaluations. Studies to the date of our audit were, however, mainly economy and efficiency oriented. The Department had not clarified broader program objectives in measurable terms as a pre-requisite to successful program effectiveness evaluation.

**Hospital transfers.** As a result of a 1963 Cabinet directive to transfer departmental health care institutions to provincial and other jurisdictions, 10 of 14 institutions have been transferred over the past 17 years. The Department has

had difficulty in arriving at an equitable sharing of health costs between federal and some provincial authorities.

The Department has stated that the purpose of transfer negotiations is to ensure quality hospital care for veterans in the years to come. Although transfer agreements prescribed federal capital contributions as one means of assuring this level of care, we noted a lack of specific reference in the agreements to needed improvements. In discussions with the Department, it became evident that it was not the Department's intention to be as specific as would be expected for a capital contribution and, in fact, it appeared to identify more closely with capital grants.

**Operations of hospitals.** Our review of the operations of Deer Lodge Hospital, Winnipeg, as a sample, suggested that there were potential savings in non-medical operating costs, generally comparable to what could be found in reviews of similar-sized provincial and community institutions. We noted that, in the major operating areas of nursing and housekeeping services, efficiency could be substantially increased. In addition, substantial savings in the dietary services area could be achieved with certain capital improvements.

**Administration of veterans allowance payments.** We found that the Department was exercising adequate control over establishing the eligibility of recipients; however, there was insufficient direction from Headquarters in enforcing procedures to verify income declared by recipients.

**Management information systems.** Departmental management is highly committed to a management by objectives process and, as well, is developing a new performance measurement system. We found, however, that management had given priority to the development of a computer system for the longer term and had not provided direction and assistance to regions in developing systems to meet their current needs.

**Pensions compensation.** We found that pension payments were well controlled but that the Canadian Pension Commission had not formalized standards for work processes within their control. Such standards would include the time taken to process an application and the cumulative time from receipt of an application to a final decision.

**Computer systems development.** Veterans Affairs was in the process of developing and implementing new benefit delivery systems at a total cost projected in excess of \$9 million. We found inadequate documentation on presentations and on decisions taken by management during the development of these major projects.

**Property management.** Since 31 March 1977, no further loans have been permitted under the Veterans' Land Act. Thus, the major work of the Veterans

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Land Administration has been in collecting outstanding loans and carrying out requisite property administration. We found that an orderly phase-down of operations was in progress and that studies were being carried out to determine the possibilities of converting agreements of sale to mortgages, which would accelerate the phase-down as well as achieve savings in departmental administrative costs.

**Internal audit.** Internal audit was one of the earlier organizational units being relocated to Prince Edward Island. As a result, we found a more pronounced turnover of staff and related problems. Although planning and organization had improved since our 1978 government-wide review of the internal audit function, only limited improvement was noted in audit practices.

**Reporting to Parliament.** Veterans Affairs was meeting the requirements of Treasury Board in relation to the presentation of information in the Estimates and Public Accounts. Reporting to Parliament is being reviewed across government by the Office of the Comptroller General. In the case of Veterans Affairs, we believe the presentation could be improved by including performance and organisational information and by more extensive statements describing expenditures and transfer payments.



## **OTHER AUDIT OBSERVATIONS**



**Observations on the Financial Statements and Operations of Crown Corporations and Other Entities (Chapter 11)**

Chapter 11 comments on certain qualifications and other matters included in our audit reports on the annual financial statements of Crown corporations and other entities. The Auditor General audits and reports on the annual financial statements of 34 of the agency and proprietary Crown corporations listed in Schedules C and D to the Financial Administration Act (FAA) and also audits and reports on the annual financial statements of 52 other separate entities. These include departmental Crown corporations listed in Schedule B to the FAA, and boards, commissions, territorial governments and their agencies, separate funds and special accounts such as the Exchange Fund Account, the Canada Pension Plan Account and the Unemployment Insurance Account.

Our audit reports on current year financial statements include qualified opinions or other observations where we found:

- deficiencies or inconsistencies in the application of stated accounting policies;
- major uncertainties which were unresolved at the reporting date; or
- significant transactions that were not within the statutory powers of a corporation.

The observations in our reports on Crown corporations and other entities set out in Chapter 11, which elaborate on the more significant qualifications and other observations included in our audit reports, are listed below:

- *Airports Revolving Fund* - Failure to record termination benefits.
- *Atomic Energy of Canada Limited* - Uncertainty as to disposition of the La Prairie heavy water plant.
- *Atomic Energy of Canada Limited* - Impairment in value of Glace Bay and Port Hawkesbury heavy water plants.
- *Canada Employment and Immigration Commission* - Benefit and Over-payment System.
- *Canada Pension Plan* - Funding of the Plan.
- *Canadian Arsenals Limited* - Failure to capitalize fixed assets and record depreciation.
- *Canadian Commercial Corporation* - Possible effect on financial position of uncertain outcome of litigation.
- *Canadian Saltfish Corporation* - Economic uncertainties surrounding a non-operating plant acquired during the year.

## *Other Audit Observations*

- *The Exchange Fund Account - Valuation of gold.*
- *The Jacques Cartier and Champlain Bridges Incorporated - Dependency on future parliamentary appropriations.*
- *Loto Canada Inc. - Possible effect on financial position of uncertain outcome of litigation.*
- *National Capital Commission - Improper disclosure of unexpended balance of parliamentary appropriation, and failure to record depreciation.*

### **Observations Reported Under Sections 7 and 11 of the Auditor General Act (Chapter 12)**

**Introduction.** This Chapter reports on three types of matters:

- observations on matters raised in previous reports that have not been adequately dealt with by the Government;
- observations made for the first time that have not been included elsewhere in the Report; and
- observations on our audit of the Oil Import Compensation Program, conducted at the request of the Governor in Council under section 11 of the Auditor General Act.

The departments and agencies for which comprehensive audits were reported in 1978 and 1979 were asked by the Standing Committee on Public Accounts to update their comments on our recommendations 1 May 1980. Their reports have been received by the Committee.

### **Observations Reported Under Section 7 of the Auditor General Act**

Section 7(2) of the Act requires the Auditor General to call attention in his annual Report to anything he considers to be of significance and of a nature that should be brought to the attention of the House of Commons. Matters which the Auditor General deems significant and which are not reported in government-wide studies or in the departmental and agency comprehensive audit chapters are reported in Chapter 12. These are:

- *Department of Fisheries and Oceans - Inadequate control over Inshore Fisheries Rehabilitation Program (raised in 1979 Report).*
- *Acquisition of Radio Engineering Products Limited as satisfaction for debts to the Crown (raised in previous Reports).*
- *Department of Agriculture - Inadequate financial procedures resulting in loss of revenue and parliamentary control.*

## *Other Audit Observations*

- *Office of the Commissioner of Official Languages - Expenditure in excess of appropriation.*
- *Department of Labour - Expenditure in excess of appropriation.*
- *Department of Transport - Improper charge to 1979-80 appropriation.*

### **Observations Reported Under Section 11 of the Auditor General Act**

**Oil Import Compensation Program.** In 1974, at the request of the Governor in Council, we undertook a continuing inquiry, under section 62 of the Financial Administration Act, into the administration of expenditures of the Oil Import Compensation Program. The following significant items have come to our attention during the course of our current examinations:

- *Special freight compensation for cargoes lightened in the Caribbean en route to Canada.* In the 1979 Report, it was noted that \$2.2 million of excessive freight compensation paid to two importers remained uncollected pending the results of legal action taken by a third importer. The courts ruled in favour of the Board and the outstanding amounts were recovered from the two importers, one of whom has commenced legal action to reverse the \$1.9 million recovery action taken by the Board.
- *Method of deducting oil exports.* In the 1979 Report, it was pointed out that importing companies must refund compensation on imported oil which is subsequently exported. We noted one case where, in our view, the method used by an importer to deduct exports resulted in excessive compensation of \$3 million (since revised to \$3.7 million). The Board does not concur with our view and has referred the matter to the Department of Justice for an opinion. No action is to be taken in this matter until an opinion is received.

Other matters raised in the 1979 Report have been resolved as follows:

- *Control of oil exchanges.* In 1979-80, the National Energy Board approved a number of exchanges of western Canadian crude oil for crude oil imported into eastern Canada. The effect of these exchanges is that crude oil may be exported to the United States of America from western Canada without payment of the applicable export charge if a similar quantity of crude oil is imported into eastern Canada without the receipt of import compensation.

Procedures have been developed by the National Energy Board to ensure that the required amount of replacement crude oil is imported into eastern Canada. Adequate information is made available to the Petroleum Compensation Board's staff to ensure that oil import compensation is not paid on these replacement crude imports.

### *Other Audit Observations*

- *Audit of price restraint.* Since the petroleum products industry is no longer under mandatory Federal Government price controls, we have discontinued the audit of sales data. However, the Petroleum Compensation Board continues to monitor the price behaviour of oil company products as provided for in the regulations.

## **Organization and Programs of the Office of the Auditor General (Chapter 13)**

**Organization of the Office.** On 12 September 1980, James J. Macdonell retired as Auditor General of Canada. The Governor in Council appointed Michael H. Rayner, Deputy Auditor General, Planning/Reports/Standards Branch, to perform temporarily the duties of Auditor General. The plan of organization for the Audit Office at 1 October 1980 is shown in Exhibit 13.1.

The Office is organized into six Branches, whose principal responsibilities are outlined in the paragraphs that follow.

*The Departments and Agencies Branch* is responsible for planning, conducting and reporting the comprehensive and financial audits of departments and agencies and Crown corporations other than the "laboratory group". It is also responsible for the follow-up of audit recommendations made in previous Reports.

*The Corporations Branch* is responsible for the development of comprehensive audit methodology for Crown corporations. The Office is currently working with a "laboratory group" of Crown corporations and the experience acquired will assist in developing the Office's approach to comprehensive auditing of Crown corporations generally. The Branch has primary responsibility for co-ordinating the Office's relationship with the external auditors of those Crown corporations for which the Auditor General is not the designated auditor.

*The Control Evaluations Branch* provides professional support to comprehensive audit teams in the areas of financial, management and EDP controls. The Branch also plans and conducts government-wide and special studies in these areas and plays a leading role in comprehensive auditing methodology development.

*The Planning/Reports/Standards Branch* is concerned with comprehensive auditing standards and a number of professional advisory activities which support the quality of audit operations and reporting. A major responsibility is co-ordinating the preparation of the annual Report and maintaining liaison with the Standing Committee on Public Accounts, Members of Parliament, central agencies of government and the Office's legal advisers.

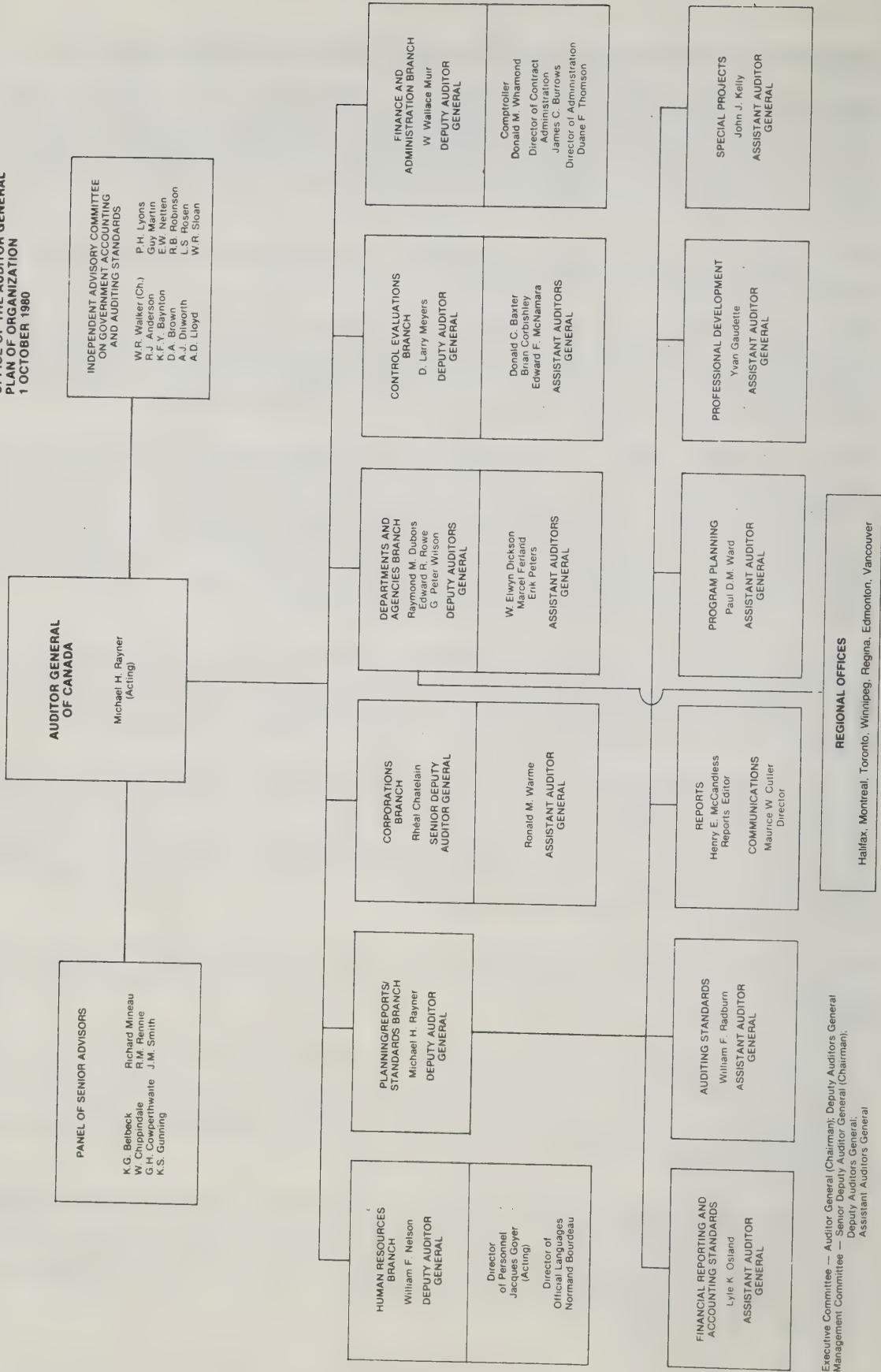
*The Human Resources and Finance and Administration Branches* provide the various support services and controls required to staff and support the professional organization.

The Auditor General has two main groups of advisors. Each group is made up of senior members from major accounting and management consulting firms and universities. The *Panel of Senior Advisors* counsels the Auditor General on the application of comprehensive auditing, with particular emphasis on public sector corporate entities.

The *Independent Advisory Committee on Government Accounting and Auditing Standards* provides advice to the Auditor General on accounting and reporting matters and reviews major documents, such as the opinion and observations on the annual financial statements of the Government, and the Office's *Comprehensive Auditing Manual* and *Audit Guides*.

Exhibit 13.1

OFFICE OF THE AUDITOR GENERAL  
PLAN OF ORGANIZATION  
1 OCTOBER 1980



**Executive Committee** — Auditor General (Chairman); Deputy Auditors General  
**Management Committee** — Senior Deputy Auditor General (Chairman);  
Deputy Auditors General;  
Assistant Auditors General.

**Programs.** Elsewhere in the Conspectus, we have presented summary descriptions of the audits reported in 1980. Related to this is the Office's continuing assistance to the Standing Committee on Public Accounts. This includes assistance to the Sub-Committee on Agenda and Procedure in planning the Committee's schedule for its review of the annual Report. Other activities of importance include:

- *International audits.* Canada served on the United Nations Board of Auditors from June 1945 to June 1956 and again from July 1968 to June 1980. During the past year, the Office had major responsibilities in the audit of the United Nations and the International Civil Aviation Organization. Approximately 40 staff members from Canada worked on a variety of United Nations audits.
- *International activities.* The Auditor General led the Canadian delegation to the Tenth Congress of the International Organization of Supreme Audit Institutions in Nairobi, Kenya, in June 1980.
- *Joint initiatives with other organizations.* The Canadian Comprehensive Auditing Foundation was established in February 1980 to encourage the development of methodology and professional development programs in comprehensive auditing. The Foundation is a working association of public and private sector auditors, accountants and management consultants, internal auditors in the public and private sectors, and academics. Membership in the Foundation includes institutions and professional organizations such as legislative audit offices, government and private sector internal audit groups, public accounting and management consulting firms, individuals and corporations. The Foundation is financed by contributions from the federal and provincial legislative audit offices and by fees paid by the various sustaining, subscribing and individual members.

Early in 1979, a task force was established to address audit concerns expressed by provincial legislative auditors regarding the federal role in collecting provincial taxes. The task force is made up of representatives from two provinces and members of the Office of the Auditor General of Canada. The task force's work consists of reviewing this Office's audit programs, findings and reports relating to assessing, proper allocation and accounting for personal and corporate income tax returns and various provincial tax credits, and reporting whether the concerns expressed by provincial legislative auditors have been adequately addressed in the audit work.

The Canadian legislative auditors held their eighth annual meeting in Winnipeg, Manitoba, 11-13 August 1980. The Public Accounts Committees Chairmen held their second annual meeting at the same time. They participated in a joint session with the legislative auditors on the final day.

*The Audit Office*

**Resources of the Office.** At 1 August 1980, 213 of the full-time professional staff of the Office were qualified for membership in recognized accounting associations. There were 35 members of the professional staff with other qualifications, and 79 students-in-accounts were enrolled in programs leading to accounting designations.

The Office continues to participate in the Public Service Commission's Executive Interchange Program. At 1 August 1980, there were 31 professionals associated with the Office under the Program, and 166 persons were engaged by the Office on professional service contracts.

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# Report of the Auditor General of Canada to the House of Commons

Fiscal Year Ended  
31 March 1980





# Report of the Auditor General of Canada to the House of Commons

Fiscal Year Ended  
31 March 1980

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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

The Honourable Jeanne Sauvé, P.C., M.P.,  
Speaker of the House of Commons.

I have the honour to transmit herewith my Report to the House of Commons for the fiscal year ended 31 March 1980, to be laid before the House in accordance with the provisions of section 7(3) of the Auditor General Act, S.C. 1976-77, c. 34.

  
Michael H. Rayner  
Acting Auditor General of Canada

OTTAWA, 8 December 1980



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**REPORT OF THE AUDITOR GENERAL  
TO THE HOUSE OF COMMONS  
FOR THE FISCAL YEAR ENDED 31 MARCH 1980**

**INTRODUCTION**

The principal functions and responsibilities of the Auditor General of Canada are set out in the Auditor General Act, S.C. 1976-77, c. 34, which came into force 1 August 1977. His responsibilities in respect to those Crown corporations for which he has been appointed auditor are set out in sections 76 to 78 of the Financial Administration Act, R.S.C. 1970, c. F-10. The Auditor General Act is included as Appendix A to this Report and the relevant sections of the Financial Administration Act as Appendix B.

In compliance with section 7 of the Auditor General Act, my Report for the fiscal year ended 31 March 1980, is presented herewith.

My examination included general reviews of the accounting procedures and such tests of accounting records and other supporting evidence as were considered necessary in the circumstances. My staff was provided with all the information and explanations required. I should like to express my appreciation and that of my associates in the Audit Office for the co-operation extended to us by officials of departments, agencies and Crown corporations.

The financial statements of the Government of Canada for the fiscal year ended 31 March 1980, which have been prepared by the Receiver General for Canada in accordance with the provisions of section 55 of the Financial Administration Act and appear in Volume I of the Public Accounts of Canada, have been examined by me as required by section 6 of the Auditor General Act. These statements and my opinion and observations thereon are normally reproduced as an appendix to my Report. At the time this year's Report was sent for printing, however, the Public Accounts of Canada for 1980 were not available in final form.



**MATTERS OF SPECIAL IMPORTANCE AND INTEREST**



## MATTERS OF SPECIAL IMPORTANCE AND INTEREST

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## MATTERS OF SPECIAL IMPORTANCE AND INTEREST

### James J. Macdonell Retires

**1.1** On 12 September 1980, James J. Macdonell, D.Admin., F.C.A., F.M.C., retired as Auditor General of Canada after seven years of outstanding service to the nation. A dynamic and enthusiastic leader, J.J. Macdonell capped a career of 50 years in the accounting and management consulting professions by launching the Office of the Auditor General into its second century better equipped than ever to fulfil its role of service to Parliament and the Canadian people. He introduced concepts and methods that have had and will continue to have far-reaching effects on internal and external auditing in both the public and private sectors.

**1.2** Mr. Macdonell's stewardship is well known and highly respected. He has shown how management in government can be improved to the benefit of taxpayers. Reports of the Auditor General since 1973 provide a history of major events that took place during his term of office. These have had or will have a significant impact on improving accountability to Parliament and the management of resources in the public sector. Highlights include:

- 1973 -- The Auditor General of Canada hosts the first of a continuing series of annual meetings of the Canadian Conference of Legislative Auditors.
- The Independent Review Committee (Wilson Committee) is established to examine the responsibilities of the Office of the Auditor General, its relationships with government, its procedures for reporting, and the ways in which its independence could be assured.
- 1974 -- The Financial Management and Control Study (FMCS), the first of four major government-wide studies, is launched to examine the quality of financial control in government and to introduce systems-based auditing to the Audit Office.
- 1975 -- The Wilson Committee Report is tabled in the House of Commons, recommending a value-for-money mandate for the Auditor General and a new degree of administrative freedom to ensure his independence.
- 1976 -- The Computer and Information Systems Evaluation (CAISE) study examines the adequacy of controls in computerized processing of financial data.
- The 1976 annual Report of the Auditor General states: "*Parliament -- and indeed the Government -- has lost, or*

*is close to losing, effective control of the public purse." It recommends the appointment of a Comptroller General and Departmental Comptrollers.*

- The Lambert Royal Commission on Financial Management and Accountability is created by the Government to address in part the major concerns identified by the Auditor General.

1977 -- Parliament passes a new Auditor General Act, embodying the recommendations of the Wilson Committee. It requires the Auditor General to report to the House of Commons on cases in which he has observed that "money has been expended without due regard to economy or efficiency", or "satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented."

- The Study of Procedures in Cost Effectiveness (SPICE) examines whether appropriate systems are in place and operating satisfactorily for ensuring economy, measuring and reporting efficiency, and evaluating program effectiveness.

1978 -- The first Comptroller General of Canada is appointed.

- The first comprehensive audits of departments and agencies, and the results of the Financial Information Systems Evaluation (FISE) are reported to Parliament.
- The Centennial Report is published: "*There is, in my opinion, widespread lack of due regard for economy and efficiency in the operations of government, and inadequate attention to determining whether programs costing many million of dollars are accomplishing what Parliament intended.*"
- The Centennial Conference of the Office of the Auditor General is held in Ottawa to bring together parliamentarians, public service managers, auditors and others to discuss issues of accountability and audit.

1979 -- The Lambert Report is published.

- The Report of the D'Avignon Special Committee on the Review of Personnel Management and the Merit Principle is published.
- The 1979 Report of the Auditor General states: "*The time is right -- and will never be better -- to develop an*

*integrated action plan to ensure effective financial, personnel and general management of Canada's publicly-owned funds and resources and -- most important -- to reintroduce inspired leadership and motivation of the human resources dedicated to the service of Canada as represented by its Public Service. This is the challenge -- and the opportunity -- for the new Government and the new Parliament."*

1980 -- Canada completes its fourth consecutive three-year term on the United Nations Board of Auditors, having introduced a new systems-based United Nations Audit Manual and a report, to be considered by the General Assembly in 1981, recommending a restructuring of the Board of Auditors.

-- The Canadian Comprehensive Auditing Foundation is established, and J.J. Macdonell is elected Chairman.

-- "As a continuing testimonial and recognition of the outstanding service of Mr. Macdonell", the President of the Treasury Board announces a new Public Service award consisting of a citation and a \$5,000 honorarium "to be given annually to the federal public servant selected as the outstanding manager of financial and/or human resources."

**1.3** Throughout his term, Mr. Macdonell worked incessantly to improve the organization of the Office, restructuring it along the lines of major professional firms in the private sector. Careful attention was paid to the recruitment and development of a strong, multi-disciplined professional staff. A close working relationship was established with the public accounting and management consulting professions and hundreds of senior professionals were recruited for tours of duty in the Audit Office under Executive Interchange agreements or professional service contracts. Leading members of the Canadian accounting and consulting professions were recruited to serve on two advisory bodies, the Panel of Senior Advisors and the Independent Advisory Committee on Government Accounting and Auditing Standards.

**1.4** This Office is proud and privileged to have been associated with James J. Macdonell. He has brought honour to the Office of the Auditor General and has rendered a great service to Canada. He leaves behind both inspiration and challenge.

\* \* \*

**1.5** Although Mr. Macdonell reached statutory retirement age before this Report was completed, all the observations it contains arise from studies and audits launched while he was Auditor General. As in preceding years, the Report

includes the results of both government-wide audits and comprehensive audits of individual entities. Also included are observations arising from auditing activities in organizations not subject to a comprehensive audit this year and a report on the organization and programs of the Audit Office.

**1.6** The remainder of this Chapter identifies the main features of the government-wide audits conducted this year, describes briefly the six comprehensive audits we performed, and reports on other significant matters involving the Office. The concluding section addresses major issues arising from our audits over the last several years.

### **Government-Wide Audits**

**1.7** In 1979-80, the Audit Office conducted government-wide audits of materiel management, energy conservation and the Comptroller General's program for improved management practices. Wherever appropriate, this audit work was closely co-ordinated with our comprehensive audit activities in individual departments and agencies.

#### **Materiel Management (Chapter 2)**

**1.8** In Chapter 2 of this Report, we set out our observations arising from the government-wide audit of materiel management. The audit objective was to assess and report on the adequacy of systems and procedures for planning and controlling economic and efficient acquisition and use of materiel throughout government.

**1.9** During 1979-80, the Federal Government spent approximately \$3 billion on materiel, defined as all movable public property, equipment and stores, other than money, provided to an organization. In addition, there are personnel and operating costs associated with materiel management. We estimate the total value of equipment and stores on hand to be about \$15 billion. Economic and efficient management of these resources is essential if Government is to obtain value for the money it invests in materiel. Eight of the 11 organizations included in our audit are responsible for about 80 per cent of the total government expenditure for materiel. The total annual operating and capital expenditures associated with the activities we audited was approximately \$1 billion.

**1.10** *Based on 28 studies carried out in 11 organizations, we concluded that there were significant weaknesses in the development and use of systems needed to achieve economy and efficiency in materiel management across government. In particular:*

- managers did not have adequate information to make decisions;
- key government directives were not being followed; and

- *there were no effective means for holding managers accountable for the management of materiel.*

**1.11** We did find a number of cases where most of the materiel management function was being carried out satisfactorily. In addition, where we pointed out deficiencies in the way in which the function was being carried out, departmental managers indicated their willingness to take remedial action. But we believe that improvements can and should be made through improved information and compliance with policies and through greater concern for accountability for economical and efficient operations.

**1.12 The operating environment of materiel management.** Managers in the public service are subject to many controls. The public sector manager is scrutinized by the central agencies, by Parliament and by the public. Central agency and departmental controls limit managerial discretion in allocating funds for different purposes and generate a significant amount of paperwork. The effects of competing policy objectives of different departments on the management of materiel add further to the problems of managing materiel economically and efficiently. Decisions on the most appropriate balance among these objectives are the responsibility of the minister or ministers concerned.

**1.13** The decision not to choose the lowest-cost course of action, in terms of a department's own needs, should be based on adequate information. Ensuring that due regard is given to economy implies that the costs of satisfying policy objectives, to the extent that it is possible to determine them, are taken into account. Therefore, departmental officials should ensure that:

- the minister or ministers concerned are provided with objective information on all feasible options to enable them to make an informed judgement on the cost of satisfying relevant social and economic objectives; and
- resulting decisions are carried out as economically and efficiently as possible.

**1.14** This emphasizes the need, in the government context of accountability, to recognize the distinction between due regard for economy and efficiency and achieving economy and efficiency in an absolute sense. Our audit observations should be read with this distinction in mind.

**1.15 Audit observations.** Our review indicated that managers' performance tends to be assessed mainly in relation to the quality of service provided to the public. Managers believe that they leave themselves open to criticism if they fail to meet these service expectations. If there are rewards for providing service to the public but not for managing materiel economically and efficiently, managers can be expected to establish their priorities accordingly.

**1.16** Across departments, we found a widespread lack of information systems for compiling financial and operating data that would enable managers to analyse options and compare their benefits and costs, measure in-service performance and utilization of materiel, and thereby assess the economy and efficiency of materiel management practices. Without such information, it is impossible to build an accountability system for achieving due regard for economy and efficiency.

**1.17** This absence of information systems, as well as a lack of performance standards, persists despite direction from the Treasury Board. We found that the development of these systems was given low priority by senior managers, perhaps because the lack of them does not produce repercussions, because managers perceive such systems to be an attempt to establish another layer of control that does not help them to manage better, and because they do not feel they have sufficient authority to make decisions based on such information systems.

**1.18** Across departments, we also found a general lack of compliance with key Treasury Board policies and guidelines governing materiel management. Part of the reason may be that central agencies have tended to issue policies and guidelines in response to both actual and expected problem situations as they were perceived, while not always integrating them with the body of policies and guidelines already in place. Such a system of detailed controls, some of which overlap and even conflict with others, makes it more difficult to hold managers accountable for the achievement of program objectives. Virtually every aspect of sound materiel management is the subject of a Treasury Board policy or guideline. The Treasury Board, however, had no system in place to monitor the total effect of all policies and guidelines in a practical way.

**1.19** As we noted in Chapter 2, Treasury Board is addressing these problems. However, continuing consideration needs to be given to the complexity of the entire body of policies and guidelines affecting materiel management, including those referring to budget process and personnel management, in order to assess their impact on managerial discretion and accountability. We believe that the management of materiel in the public service can be considerably improved. The greatest opportunity lies in the development of better information and control systems. The needed improvements would not only result in greater economy and efficiency but would also provide better definition of levels of service and a means for making managers more accountable for their actions.

### **Energy Conservation in Government (Chapter 3)**

**1.20** On 6 February 1975, the Minister of Energy, Mines and Resources announced in the House of Commons an energy conservation program for the Federal Government as the first phase of a broad national conservation program. The objectives of the In-house Energy Conservation Program (IECP) were "to eliminate energy waste and to improve the efficiency of energy utilization in the activities of all federal departments and agencies". The IECP policy was subsequently incorporated in the Treasury Board *Administrative Policy Manual*.

Among other things, the Manual noted that the program was to be implemented throughout government "under the general direction" of the Department of Energy, Mines and Resources (EMR) and that EMR was "responsible for the evaluation" of the program. The target of the IECP was expressed in the following way:

Until the end of fiscal year 1985-86, annual energy consumption by federal departments, agencies and Crown corporations shall be held at a level that is at least 10 per cent below that of 1975-76.

**1.21** The purpose of our audit was to determine whether the development and management of the government-wide program of energy conservation and the measures implemented by departments, agencies and Crown corporations to reduce energy consumption reflected due regard for economy and efficiency in the management of energy resources. In addition, we wanted to determine whether information on government use and conservation of energy, as reported by EMR, was sufficiently complete and reliable to allow a fair assessment of the program's performance.

**1.22** We examined the co-ordination of program activities and the reporting of results by EMR's Internal Energy Conservation Program section to Cabinet and the public. We also reviewed the implementation of conservation practices and procedures in six organizations.

**1.23 Audit observations.** We found that significant progress had been made in implementing energy conservation measures, in establishing data bases on energy use and developing experience and expertise in energy management. But we also found that the information published by EMR on the Government's use and conservation of energy has not been presented in a manner which accurately describes the achievements of the program.

**1.24** In preparing annual reports on the IECP, the Department of Energy, Mines and Resources has used 1973-74 as the base year for the Department of National Defence (DND) because that Department, which accounts for more than half the reported consumption of the Federal Government, initiated measures in 1973 to reduce energy consumption. Because DND's energy use declined rapidly between 1973-74 and 1975-76 but increased slightly between 1975-76 and 1978-79, the reductions in energy consumption that have been attributed to the IECP have been consistently overstated in relation to the program's target of reducing energy consumption by at least 10 per cent from the 1975-76 level. Whereas a reduction of 11.3 per cent from 1975-76 was reported for 1978-79, our analysis of the data, using a 1975-76 base for DND, showed the reduction was only 4.2 per cent. With DND excluded, the reduction was 12.5 per cent. We concluded that the reporting has not adequately informed the public and the Government about the program's performance.

**1.25** The Government should be a leader in energy conservation and in the statement to Parliament in February 1975 there were, in fact, specific commitments to put its own house in order and to demonstrate its seriousness in pursuing energy management policies. We believe, therefore, the Government should ensure that its reporting of performance is as adequate and reliable as possible.

**1.26** Our study also indicated that:

- because it refers only to energy used, and not to the purposes for which it is used, a target based on absolute levels of consumption is not consistent in all circumstances with the program's objectives of reduced energy waste and increased efficiency; therefore, the 10 per cent target, while helpful as a means for launching the program, does not provide a suitable basis for managing government use of energy to 1985-86;
- base year data for 1975-76 are unreliable and do not provide an adequate benchmark for measuring IECP's performance;
- data on energy consumption reported to EMR have been incomplete and their reliability has been uncertain;
- EMR's Internal Energy Conservation Program section has not provided strong central leadership in areas relating to the organization and management of conservation activities in departments, agencies and Crown corporations; and
- there has been no systematic monitoring by the Treasury Board of the extent of compliance with its directives on energy conservation.

**1.27** In the departments and agencies we reviewed, we found that genuine efforts were being made to conserve energy. Nevertheless, opportunities to achieve further reductions in energy consumption still exist. We are concerned that, without an aggressive and co-ordinated energy management program throughout government, the efforts made and savings achieved during the last few years will not be sustained and the full potential for conservation will not be realized. We are confident that, with appropriate priority and commitment, there is a great deal more that can be done to achieve economies in energy use within the Federal Government. To this end, we have made a number of recommendations in Chapter 3 for improvements we believe would help place energy conservation activities on a sounder footing for the longer term.

#### **Government Initiative for Improved Management Practices (Chapter 4)**

**1.28** In September 1978, the Comptroller General launched a major initiative commonly known as IMPAC, the acronym for Improvement in Management Practices and Controls. IMPAC was designed to identify the current state of

management practices in departments and agencies, to support the development of individual Action Plans for the correction of identified deficiencies and to monitor the implementation of these plans. The departments and agencies are responsible for developing and implementing Action Plans, and the Office of the Comptroller General is responsible for overseeing the process.

**1.29** Our review was designed to determine whether the actions resulting from IMPAC appropriately addressed the concerns that we have previously reported and to follow up on the general progress of the IMPAC project, as requested by the Standing Committee on Public Accounts. This is the first year that we have monitored the project. IMPAC has been under way since 1978, but it was not until 1980 that it had reached the stage where the first six approved Action Plans for implementing required changes were available for our review.

**1.30 Audit observations.** Although IMPAC is still in the early stages, we believe it has already had beneficial effects. It has encouraged departments and agencies to focus on improving management practices and, by integrating improvements required by IMPAC with those independently initiated by departments, greater co-ordination of effort has been achieved. Our findings indicate that IMPAC has provided additional discipline and impetus to existing processes and has frequently extended the scope of management improvements. Also, by monitoring the Action Plans, the Office of the Comptroller General has added independent review to the process of management improvement.

**1.31** The progress of IMPAC has been slower than initially expected. This is due, in part, to the uniqueness of IMPAC and the extensive detail and broad coverage developed for some of the Action Plans. On the initiative of departments, Action Plans have frequently been extended to incorporate topics other than those recommended by the Office of the Comptroller General. Also, the ability of the Office of the Comptroller General to oversee IMPAC has been limited by a lack of resources available for this purpose.

**1.32** The Action Plans extend over a long period of time. The latest completion date indicated on the six Action Plans we reviewed is March 1983, but some plans show tasks with no completion dates. From this, we concluded that several of the plans will continue past the March 1983 completion date. The Comptroller General has confirmed that the implementation of Action Plans can take from two to five years.

**1.33** At the time of our review, 29 government organizations were involved in IMPAC. One department was still in the process of analysing deficiencies. Twenty-one government organizations had agreed on the deficiencies to be covered by the Action Plans and were in the process of developing and obtaining approval of plans. Seven departments and agencies had obtained approval for their Action Plans and were in the process of implementing them. Those departments and agencies with approved Action Plans have taken an average of 16

months to assess their current situation and develop their plans. In the remaining 22 entities involved in IMPAC, we noted that the same process was taking longer.

**1.34** We found that the scope of IMPAC had not been clearly defined. At present, the project covers only the activities under the direct responsibility of deputy ministers. It does not encompass many of the boards, commissions and agencies which also form part of government operations and are dependent on the public purse. Frequently, many of these entities have been the subject of observations by this Office. We note, for example, that although the Department of Agriculture is participating in the project, such entities as the Canadian Dairy Commission and the Agricultural Stabilization Board are not within the purview of the project.

**1.35** The scope issue is significant because it defines the boundaries within which the Office of the Comptroller General, through the IMPAC Action Plans, can initiate and monitor management improvements. We believe that the IMPAC project should be extended to the many boards, commissions and agencies closely aligned with departments.

**1.36** Our review of the contents of Action Plans indicated that most of the deficiencies previously reported by this Office were being addressed. It should be noted, however, that coverage in the Action Plan does not represent assurance that a deficiency will be corrected, and further monitoring will be required after implementation. The only major area not covered by the plans was payroll costs management. In our 1979 Report, following a study of this area, we directed attention to the lack of effective management of human resources in government. Our current IMPAC review revealed that the deficiencies identified last year in manpower planning, training and development, and human resource information systems, with the exception of certain aspects of manpower planning, were generally not explicitly addressed on an organization-wide basis in the Action Plans. Action to remedy these deficiencies should be integrated with the other management improvements being introduced. We believe, therefore, that the IMPAC project should be expanded to include the co-ordination of improvements in human resource management practices and controls, particularly in the areas of manpower planning, training and development, and personnel information systems.

**1.37** The management of change is a complex and frequently long process. As we state in Chapter 4, we have just begun to monitor IMPAC and, in particular, its response to issues that this Office has reported to the House of Commons. As requested by the Standing Committee on Public Accounts, we shall continue our monitoring of the progress of IMPAC.

### **Comprehensive Audits**

**1.38** Chapters 5 to 10 present the findings resulting from comprehensive audits conducted during the last year in the following organizations:

- House of Commons (Chapter 5)
- Department of Indian Affairs and Northern Development (Chapter 6)
- Department of National Revenue - Customs and Excise (Chapter 7)
- Department of National Revenue - Taxation (Chapter 8)
- Department of Supply and Services - Supply Administration (Chapter 9)
- Veterans Affairs (Chapter 10)

**1.39** This brings to 18 the number of comprehensive audits reported to Parliament since 1978. At the end of each comprehensive audit chapter is a summary of our recommendations and the comments of the audited organization on each recommendation.

**1.40** **House of Commons.** The comprehensive audit of the House of Commons deserves special reference. In 1979, the Speaker of the House of Commons, with the support of the Standing Committee on Management and Members' Services, asked this Office to undertake a comprehensive study of the organization and administrative systems of the House of Commons. The findings from this audit indicated the urgent need for significant improvements in organization and administration, in financial and personnel management, and in the classification and compensation plans for House officials. The Speaker of the House of Commons indicated general support for the recommendations arising from our comprehensive audit and also indicated a desire to act promptly to improve House administration. We recommended a specific action plan for implementing the required improvements. Since our audit, the House has made progress in implementing the action plan and has provided the leadership necessary for administrative change, with the appointment of an Administrator, a Comptroller, and a Director General of Human Resources.

**1.41** **Library of Parliament.** While we were conducting our comprehensive audit of the House of Commons we also completed a survey of the operations of the Library of Parliament at the request of the Parliamentary Librarian. The survey indicated that the Library was reasonably well-managed and that a full comprehensive audit would not have been cost-justified. We were, however, able to make several suggestions for strengthening management's control of library services and administrative activities. We reported the results of the survey in a management letter to the Parliamentary Librarian.

**1.42 Comprehensive auditing methodology.** In September 1980, the Auditing Standards group of the Office issued the *Comprehensive Auditing Manual*. This Manual, designed for the use of audit staff in the Office, sets out the comprehensive auditing standards, procedures and process followed by our Office in carrying out audit work. The Manual will form the basis for developmental work in the future.

**1.43** A series of Audit Guides for the use of auditors in the field accompanies the *Comprehensive Auditing Manual*. These Guides are also important developments in methodology and professional training and will assist us in conducting our audit work more economically, efficiently and effectively. The Audit Guides are currently in varying draft stages. When they are completed, we look forward to making them available for wider use through the Canadian Comprehensive Auditing Foundation and other professional organizations.

**1.44** The development of the Manual and Guides will help us to ensure more consistent approaches to auditing in the public sector. To fulfil our parliamentary mandate, we shall continue to develop comprehensive auditing methodology and train our professional staff in its application.

### **Other Matters of Importance**

**1.45** In addition to the government-wide and comprehensive audits referred to above, the Office has been engaged in a number of other important activities during the last year. These are described in this section and include:

- advising the Government on the audit provisions of forthcoming Crown corporation legislation;
- participating in the Treasury Board study of information for Parliament; and
- contributing to the establishment of the Canadian Comprehensive Auditing Foundation.

One additional matter, on which the guidance of Parliament is sought, is mentioned here. It concerns our audits of Indian trust accounts conducted in compliance with a resolution of the House of Commons passed on 15 November 1979.

### **Comprehensive Auditing in Crown Corporations**

**1.46** Control and accountability of Crown corporations has been a major concern of this Office for a number of years. As we have stated in previous annual Reports (most recently in Chapter 8 of the 1979 Report) and in testimony before the Public Accounts Committee, we think that all corporations wholly-owned by the Government of Canada on behalf of the taxpayers should be subject to comprehensive auditing.

**1.47** Comprehensive auditing in Crown corporations can help provide the independent assurance Parliament requires as to whether systems and procedures related to financial control are appropriate, whether there is due regard for economy, efficiency and effectiveness, and whether management practices are consistent with the expressed public policy goals of Parliament. This kind of assurance, we believe, is also desirable for directors and shareholders of Crown corporations.

**1.48** During the 31st Parliament, legislation in the form of Bill C-27 on Crown corporations was introduced in the House of Commons. The Bill provided that Crown corporation auditors should conduct value-for-money audits. The Bill died on the order paper at the dissolution of Parliament in December 1979.

**1.49** The Government is now planning to introduce new legislation respecting the control and accountability of Crown corporations. Last summer, the President of the Treasury Board, to whom the Prime Minister assigned responsibility for preparing the new legislation, invited the Auditor General to make his views known on Bill C-27. Subsequently, on 10 and 15 July, the Public Accounts Committee held hearings on Chapter 8 of our 1979 Report dealing with the control and accountability of Crown corporations. To assist the Committee's deliberations, we tabled a briefing paper summarizing the Office's position on the application of comprehensive auditing to Crown corporations. On 18 July and 29 August, the Auditor General chaired meetings with the chief executive officers of nine Crown corporations or their representatives for further discussion. The President of the Treasury Board and the Comptroller General attended one meeting and were represented at the other. These discussions, together with the two hearings of the Public Accounts Committee, contributed significantly to the development of the opinions expressed in a submission on the proposed Crown corporations legislation that the Auditor General forwarded to the President of the Treasury Board in September 1980.

**1.50** We look forward to the new Crown corporation legislation which we hope will be introduced in Parliament during its current session.

#### **Information for Parliament**

**1.51** In 1979, we expressed concern that the important project of improving the information Parliament receives through the Estimates and Public Accounts had not progressed and indeed had stalled almost completely. We welcomed the assignment of this responsibility to the Office of the Comptroller General.

**1.52** A major reform of the Estimates is now under way. The work is being directed by the Comptroller General, and pilot projects to propose revised Estimates for five departments are being led by his staff. Ultimately, all departments will be involved. It is evident that a sincere and dedicated effort is being made by the Office of the Comptroller General to ensure that the first

revisions will be presented to parliamentary committees early in the new year. Our Office is supporting this project, as requested by the Public Accounts Committee in its Third Report to the House, dated 23 March 1979.

**1.53** The proposed revisions to the Estimates deserve close attention by parliamentarians. The changes are intended primarily to assist Parliament to judge whether departments, agencies and Crown corporations will use the public funds and resources they request annually in an economic, efficient and effective manner. Careful scrutiny of expenditure proposals in the Estimates and of the subsequent reporting of actual results against budget in revised and improved Public Accounts will contribute significantly to re-establishing Parliament's control of the public purse. The timing is right. Governmental systems of financial control and internal reporting are being re-examined as a result of the Comptroller General's IMPAC project. This is the ideal time to ensure that these internal systems not only supply the right information to parliamentarians for voting supply but also meet accountability requirements throughout government.

#### **Canadian Comprehensive Auditing Foundation**

**1.54** In February 1980, the Canadian Comprehensive Auditing Foundation, a non-profit organization, was established to encourage the development of methodology and professional development programs in comprehensive auditing. The founding Board of Governors included the Auditor General of Canada, several of his provincial counterparts, the President of the Canadian Institute of Chartered Accountants, the Comptroller General of Canada and several other senior government officials, partners of public accounting and management consulting firms, internal auditors and members of the academic community.

**1.55** The Foundation operates as a co-operative agency for audit research and as a forum for the exchange and dissemination of information and comprehensive auditing methodology among members. One of its major responsibilities is the establishment of professional training programs for auditors, management consultants and other professional personnel. More than 350 persons attended its first annual conference, held in Ottawa in September 1980.

**1.56** The Foundation is financed by individual membership fees, contributions from the federal and provincial governments, and fees paid by other sustaining and subscribing members including public accounting and management consulting firms and internal audit organizations. Members of the Office and other sustaining members of the Foundation are volunteering their time and professional expertise to assist the Foundation in encouraging the development of comprehensive auditing methodology and professional training and development.

**1.57** One objective of the Foundation is to provide professional development opportunities for auditors from developing countries. We believe that this opportunity to assist in training auditors from other nations will help to maintain

Canada's reputation for excellence in auditing. Through the Foundation, the Canadian International Development Agency has already launched a program to assist developing nations to improve their government auditing and financial management capabilities. Our Office looks forward to participating in this worthwhile and important project.

### **Indian Band Funds**

**1.58** Under the provisions of Standing Order 43, the House of Commons passed a resolution on 15 November 1979 requiring that the Auditor General conduct an audit of individual Indian trust accounts administered by the Minister of Indian Affairs and Northern Development and provide reports to the House. We found that accounting systems were satisfactory and that transactions for the fiscal year 1979-80 were properly recorded for the Indian Band Funds taken as a whole.

**1.59** We did not attempt to express an opinion on the receipts and disbursements of the 1,146 individual trust accounts for the current and previous years because of the audit costs involved and the present lack of availability of records. We would appreciate the opportunity to discuss this matter further with the appropriate parliamentary committee as a means of determining what, if any, future auditing of individual Indian trust accounts should be undertaken.

### **Issues Arising From Our Audits**

**1.60** In earlier Reports we have pointed out the need to identify the underlying causes of deficiencies disclosed by our audits. Drawing accurate and useful inferences from audit findings is difficult enough in the case of complex entities, let alone for government as a whole. Nevertheless, the attempt to identify patterns in audit findings and their underlying causes can help Parliament and the Government improve controls to ensure value for money in public spending. Our government-wide and departmental and agency audits over the last several years have disclosed certain basic deficiencies in public service management:

- the failure of departments and agencies to forge, on their own initiative when ministerial or parliamentary guidance has not been specific enough, clear objectives permitting evaluation and reporting of program achievement and the establishment of guidelines for economic and efficient management of resources;
- the inadequacy of financial and management information systems supplying information within the public service to senior management, from the public service to ministers, and from the Government to Parliament;
- the lack of attention by departments and agencies to the letter and spirit of Treasury Board policies applicable to important aspects of government management;

- the lack of adequate Treasury Board systems and measures to monitor compliance with its policies and the lack of inquiry into reasons for non-compliance; and
- the slow progress in establishing Departmental Comptroller positions and staffing them with persons of sufficient stature to help deputy heads, who have major policy advisory responsibilities, to develop adequate control systems for achieving economy, efficiency and effectiveness.

**1.61** These deficiencies are being addressed by several Government initiatives for improved management of public resources. The new policy and expenditure management system introduced by the previous Government has now been in operation for more than one year. Responsibility for co-ordinating the implementation of the recommendations of the Lambert Royal Commission on Financial Management and Accountability and the D'Avignon Special Committee on the review of Personnel Management and the Merit Principle has been assigned to the President of the Treasury Board. We understand that a progress report and implementation plan will be released in the near future. As reported earlier in this Chapter, the Comptroller General's IMPAC project aims to remedy both government-wide and departmental deficiencies we have identified. Also, his information for Parliament project seeks to improve the information supplied in the Estimates and Public Accounts. Finally, during the last year, the President of the Treasury Board announced plans to establish a new management category in the public service. These plans include the development of an integrated system of performance assessment for senior managers based on accountability for results achieved.

**1.62** The central question posed in our 1978 Centennial Report was: "Why do serious managerial weaknesses continue to persist, even after years of conscientious efforts to overcome them?" It is to be hoped that the Government's current efforts to strengthen public service management will satisfactorily resolve the weaknesses we have identified. They will do so, however, only if they adequately deal with the underlying causes of the deficiencies. Members of Parliament, particularly the Public Accounts Committee, need a good understanding of such underlying causes as a base for assessing all the various government actions which will be introduced over the next several years. Our observations suggest that inquiry into the ability and motivation of the public service to manage resources effectively will point to the underlying causes for persistent managerial deficiencies.

**1.63** The first area of concern is the ability of public service management to provide appropriate information for value-for-money control and accountability, and to manage resources effectively within the constraints imposed by the complex body of policies, rules and procedures of the Federal Government and by the external operating environments of departments and agencies. This concern extends upward to the role of ministers in providing specific and clear policy and

management objectives that facilitate measurement of program effectiveness and foster economy and efficiency.

**1.64** The second area of concern is motivation. Any examination of underlying management problems in government must take into account the lack of incentives for effective management of resources. This fundamental problem was pointed out in Chapter 1 of our 1978 and 1979 Reports and in the reports of the Lambert Commission and the D'Avignon Committee. Significant improvement cannot be expected without appropriate motivation at all levels involved, both to encourage good resource management and to ensure positive attitudes toward accountability.

**1.65** In essence, then, what our observations over the last few years suggest is that the best management systems and controls devised for government will not overcome the fundamental problems revealed by our findings, and confirmed by others, unless and until there is real desire and commitment on the part of decision makers at all levels -- the will, both in Parliament and in the Government -- to create an environment in which public service managers have the necessary means and incentives for achieving the economic, efficient and effective management of public funds and resources.



## **GOVERNMENT-WIDE AUDITS**



## **MATERIEL MANAGEMENT**



# MATERIEL MANAGEMENT

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## MATERIEL MANAGEMENT

### Introduction

**2.1** During 1979-80, the Federal Government spent approximately \$3 billion on materiel. In addition, there are personnel and operating costs associated with the materiel management function. We estimate the total value of equipment and stores on hand to be about \$15 billion. Economic and efficient management of these resources is essential if Government is to obtain value for the money it invests in materiel.

**2.2** The purposes of this government-wide audit were to assess and report on the adequacy of existing systems and procedures for planning and controlling the economic and efficient acquisition and use of materiel throughout government and to develop methodology and criteria for conducting future materiel management audits.

**2.3** Based on 28 studies carried out in 11 departments, we concluded that there were significant weaknesses in the development and use of systems needed to achieve economy and efficiency in materiel management across government.

**2.4** *In particular:*

- managers did not have adequate information to make decisions;
- key government directives were not being followed; and
- there were no effective means for holding managers accountable for the management of materiel.

**2.5** We did find a number of cases where most of the materiel management function was being carried out satisfactorily. In addition, where we pointed out deficiencies in the way in which the function was being carried out, departmental managers indicated their willingness to take remedial action. We found that the main concern of managers in government is with the quality of service provided to clients, whether these clients are members of the general public or other government organizations. Nevertheless, we believe that improvements can and should be made through improved information and compliance with the mandatory requirements of policies, directives and guidelines and through greater attention to accountability for economical and efficient operations.

### **Audit Scope**

**2.6** The *Glossary of Materiel Management Terms*, issued by the Department of Supply and Services, defines "materiel" as all movable public property, equipment and stores, other than money, provided to a department. Materiel includes raw materials and manufactured products, ranging from lumber to jet aircraft. It includes short-term consumable items such as pencils and paper, small durable items such as cameras, laboratory equipment and large long-life items such as ships.

**2.7** To ensure that our audit coverage was representative and since the public service uses virtually every type of commodity, we chose a diverse sample of both commodities and departments and reviewed materiel management controls for each stage of the life cycle of major commodities.

### **Commodity Groups**

**2.8** The basis of the sample used for the audit was commodity groups. Different kinds of commodities require different types of management control systems. For example, one group consists of portable, "attractive" items, such as cameras, binoculars, tape recorders, calculating machines and typewriters. Here we would expect to find an emphasis on security and custody to ensure that attractive items would not be misappropriated. We would also expect special attention to be paid to ensuring that items purchased incorporated only those features actually required to carry out specified functions.

**2.9** Another group of commodities includes items that, even though they are different in nature, would normally be managed together -- for example, an aircraft, its spare parts and associated repair and maintenance facilities.

**2.10** We consolidated the items chosen for examination into ten commodity groups, covering each group at least once during the audit. The groups were:

- non-combat aircraft;
- ships;
- land vehicles;
- ammunition and weapons systems;
- production facilities and equipment;
- snow clearing equipment;
- attractive items;

- clothing;
- general use consumables (furniture, office supplies); and
- utilities.

**2.11** The only major groups not examined were military aircraft and ships, and computers.

### **Departments Selected**

**2.12** Our sample of items examined was drawn from 11 organizations of different sizes. We interviewed approximately 500 managers at all levels, including managers of individual facilities, from junior ships engineers to Assistant Deputy Ministers in charge of departmental programs, as well as a large number of operating and support staff. Eight of the organizations covered by our audit are responsible for about 80 per cent of the total government expenditure for materiel, or about \$2.4 billion of the total annual expenditure of \$3.0 billion. These are:

- Fisheries and Oceans;
- National Defence;
- Parks Canada;
- Post Office;
- Public Works;
- Royal Canadian Mounted Police;
- Supply and Services - Supply Administration; and
- Transport.

The three other organizations selected to complete the sample of commodity groups were:

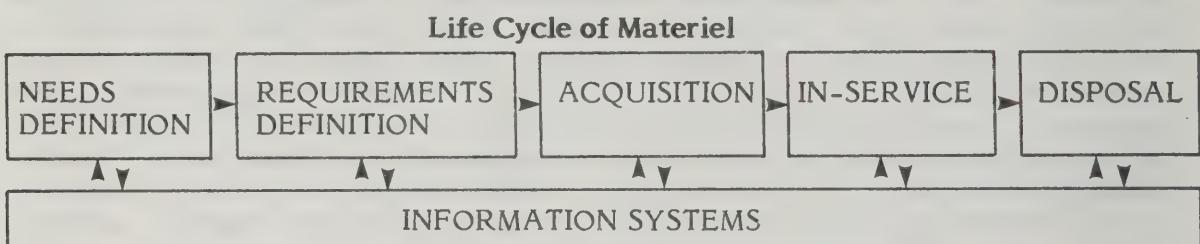
- Energy, Mines and Resources;
- External Affairs; and
- Industry, Trade and Commerce.

**2.13** The total annual operating and capital expenditures associated with the activities covered by our audit were approximately \$1 billion. The sample was designed to enable us to formulate a general opinion about the adequacy of

materiel management in government. However, it cannot be used as a basis for an opinion about the quality of materiel management in any one department or for any commodity group. Comprehensive audits of individual departments and agencies include a review of materiel management wherever it is appropriate.

## Life Cycle Stages

**2.14** Materiel items are considered to have a life cycle consisting of five stages, as illustrated and described below. Each of these stages must be properly managed and decisions must be supported by good information systems if value is to be obtained for money spent on the item. During our audit, we covered each stage of the life cycle several times.



**Stage 1 - Needs definition.** Identifying and describing the need for a service, such as clearing snow, transporting people or maintaining shipping channels, including the level of service required.

**Stage 2 - Requirements definition.** Defining what and how much materiel is needed to provide the service, where it will be located and how it will be obtained (rented, purchased, etc.).

**Stage 3 - Acquisition.** Acquiring materiel and related services by purchase, lease/purchase, rental or transfer, including commitment of the required funds.

**Stage 4 - In-service.** Keeping inventories of materiel, distributing and consuming or otherwise utilizing them, and repairing and maintaining them.

**Stage 5 - Disposal.** Selling, trading in, or otherwise disposing of materiel when it is obsolete, unserviceable or no longer needed.

**All stages - Information systems.** Gathering and using information in making decisions about materiel throughout all stages of the life cycle.

Decisions made in the earlier stages, particularly at the needs definition and requirements definition stages, can significantly affect later stages.

**2.15** It should be noted that departmental managers do not have sole responsibility for all stages of the materiel management life cycle. For example, according to the Treasury Board Administrative Policy Manual, the Department of Supply and Services - Supply Administration (DSS-Supply) has joint responsibility with the user department for the requirements definition stage and primary responsibility for the acquisition stage. In acquiring materiel for departments, DSS-Supply maintains source lists of suppliers, evaluates tenders, selects suppliers and awards contracts. In addition, under the Surplus Crown Assets Act, the Crown Assets Disposal Corporation has the responsibility for the actual sale of items declared surplus by departments. Our review was carried out in co-ordination with the comprehensive audit of DSS-Supply, reported in Chapter 9.

**2.16** Exhibit 2.1 shows the distribution of audit projects by commodity groups and the stages of the life cycle audited in each project.

### **Audit of Systems**

**2.17** We looked primarily at whether the management systems in place indicated due regard to economy and efficiency and whether the prescribed systems were being followed. In cases where the necessary management and information systems did not exist, or were inadequate, it was not feasible to determine whether the right items had been acquired or whether they were being properly used.

### **Audit Criteria**

**2.18** We assessed materiel management practices against criteria developed substantially from, and generally consistent with, Treasury Board policies and guidelines. The audit criteria we used are set out in the respective sub-sections of the Audit Criteria and Observations section.

### **The Operating Environment of Materiel Management**

**2.19** We examined major aspects of the operating environment within which materiel is managed, to understand how they affect the individual manager's ability to make materiel management decisions that demonstrate due regard for economy and efficiency.

**2.20** The aspects we examined were:

- the effect of government policy objectives;
- central agency controls; and
- limitations on managerial discretion.

**MATERIEL MANAGEMENT****DISTRIBUTION OF AUDIT PROJECTS BY COMMODITY GROUPS**

Audit Scope			Needs	Requirements	Acquisition	In-service	Disposal	Information systems
	Reviewed	Not Reviewed						
Aircraft	- DND - DOT - DFO	- Non-combat aircraft - Civil aircraft - Ships						
Ships	- DOT	- Search and rescue ships						
Vehicles	- DSS - Parks - PO - RCMP	- Trucks - Vehicles - Vehicles						
Weapons systems	- DND	- Ammunition - Weapons systems						
Production equipment	- DND - DOT - DSS - EMR - Parks - PO - DPW	- Ship repair unit - 202 Workshop depot - Test establishment - Workshop facilities - Production tooling - Test equipment - Civil engineering - Mechanized equipment - Dredging equipment						
Snow clearing	- DND - DOT	- Snow clearing equipment - Snow clearing equipment						
Attractive items	- ITC	- Attractive equipment						
Clothing	- PO - RCMP	- Uniforms - Uniforms						
General use items	- EA - DSS	- Furniture and appliances - Stocked item supply						
Utilities	- DPW	- Heating plants						

## **The Effect of Government Policy Objectives**

**2.21** Most major government programs have more than one objective. For example, industrial development programs are intended to reduce regional disparities and, at the same time, improve Canada's balance of payments and create more employment. Transport programs promote industrial development and provide access to social services. Research and development and manpower training programs make substantial contributions to many governmental objectives. These kinds of interrelationships are characteristic of most programs.

**2.22** Thus, expenditures on materiel can frequently serve government objectives other than those of the spending department. For example, a government order for materiel may be the stimulus needed to foster new technology, tide a Canadian company over a lean period and prevent layoffs, replace imported goods, or provide a basis for export sales. The common service agencies, while providing services to their client departments, may also pursue other objectives. In particular, DSS-Supply considers national objectives as well as long-run economy and efficiency in the acquisition function; this may not coincide with the most cost-effective course of action for a particular requisitioning department.

**2.23** In discussing the division of responsibilities between DSS-Supply and operating departments, the Royal Commission on Financial Management and Accountability noted that there are different views regarding the role of common service agencies, including DSS-Supply:

- One view is that common service agencies should not have any control of matters such as specifications, design criteria or project management. This view also suggests that loading too many subsidiary objectives on the common service agency will undermine the basic requirement for probity and prudence.
- A second view is that common service agencies, while primarily support vehicles for other programs, are also effective instruments for carrying out other government policies and providing visibility to the contracting process, but they are not considered to be responsible for policy and only perform a service function within the framework of specific policies.

The disparity of these views of the role of DSS-Supply in materiel management may explain some of the difficulties experienced in the requirements definition and acquisition stages. This is discussed in more detail in Chapter 9, the comprehensive audit of DSS-Supply. We have been advised by the Treasury Board Secretariat that this is now the subject of intensive study.

**2.24** Taking other objectives into account can delay decision making or result in a department spending money to acquire materiel that does not meet a particular program's needs in the most economical manner. It should be

emphasized that there is a difference between demonstrating due regard for economy and efficiency and achieving economy and efficiency. Economy or efficiency cannot be sought to the exclusion of other government objectives such as those mentioned at the beginning of this section. Decisions on the most appropriate balance among these objectives are the responsibility of the minister or ministers concerned. The decision not to choose the lowest-cost course of action, in terms of a department's own needs, should be based on adequate information. Ensuring that due regard is given to economy thus implies that the costs of satisfying policy objectives, to the extent that it is possible to determine them, are taken into account. Therefore, departmental officials should ensure that:

- the minister or ministers concerned are provided with objective information on all feasible options to enable them to make an informed judgement on the cost of satisfying relevant social and economic objectives; and
- resulting decisions are carried out as economically and efficiently as possible.

**2.25** The availability of adequate cost and performance information is critical to the achievement of due regard for economy and efficiency. This information is specifically called for by the Treasury Board Guide on Financial Administration and the Treasury Board Circular No. 1976-25, *Measurement of the Performance of Government Operations*, which require the collecting, recording and reporting of financial or related non-financial information to assess the efficiency of projects and programs.

### **Central Agency Controls**

**2.26** Considerable influence on materiel management in government is exerted by the Treasury Board Secretariat, the Public Service Commission and the Office of the Comptroller General. In addition, a senior level inter-departmental Supply Advisory Committee has been formed to promote the improvement of materiel management in the Government of Canada.

**2.27 Control through submissions.** In its Circular No. 1978-46, *Approval of Capital Projects*, the Treasury Board sets out the procedures that departments must follow when they seek approval for capital expenditures. These procedures apply to Program Forecasts, new project submissions and amendments to existing projects that are \$500,000 or more in value. Cost increases and changes to the quality or scope of a project within original funding levels require additional submissions to Treasury Board.

**2.28 Treasury Board regulations, policies and guidelines.** In addition to controlling expenditures, the Treasury Board is responsible for setting government-wide administrative policies in materiel management. Under the authority

of the Financial Administration Act, the Treasury Board promulgates policies and guidelines governing contracting for goods and services and the use and disposal of materiel, in order to ensure probity and consistency in the expenditure of funds on materiel. Since 1965, the principal document used for this purpose has been Treasury Board Circular No. MI-1-65, *Guide for Materiel Management in Government*. Portions of this Guide have been supplemented or superseded by many subsequent circulars concerning specific commodities or aspects of materiel management. In 1978, the Treasury Board began upgrading these policies and guidelines and incorporating them in its *Administrative Policy Manual*, issued in December 1978. Generally, these documents prescribe in some detail what managers either must or should do and then suggest how departments should monitor compliance. Departments normally expand on Treasury Board policies and guidelines, re-issuing them as procedures and specifications for internal use.

**2.29** The Treasury Board has also issued directives governing the operation of procurement review committees. These are formed to consider the socio-economic aspects of procurement contracts in excess of \$2 million for goods and services, or those contracts judged to have significant socio-economic impact regardless of value.

**2.30** As a means of ensuring that compliance with Treasury Board policies and guidelines is monitored, the Office of the Comptroller General has issued Circular No. 1980-3, *Co-ordination of Audit Activities*. This circular specifies the respective roles and responsibilities of departments and their managers, the Office of the Comptroller General and the Treasury Board Secretariat in monitoring compliance, and defines the requirements for monitoring materiel management. Treasury Board has recently issued Circular No. 1980-26, *Audit Questions on Administrative Policies*, which suggests a series of audit questions to be used by departmental internal auditors in assessing compliance with administrative policies.

**2.31 Personnel policies and practices.** Personnel policies and practices established by Treasury Board and the Public Service Commission have government-wide application, particularly in the areas of staffing, pay, classification, and other terms and conditions of employment. These policies and practices may affect a manager's ability to acquire and utilize operating staff and therefore may affect his or her ability to manage materiel economically and efficiently. For example, public servants are paid according to national pay scales with only minor variations. This may make it difficult for managers to recruit staff in high-wage regions. As a result, expensive equipment may not be adequately maintained or properly used.

### **Limitations on Managerial Discretion**

**2.32** Managerial discretion in public service management of materiel is constrained by several factors, including the need to defend decisions, budgetary control and spending authority limitations, and the need to operate within the framework of personnel policies and practices.

**2.33 Exposure to public scrutiny.** In the public sector, managers' actions are subject to public scrutiny and may have to be publicly defended. Thus, there is a need to ensure that managerial action follows established policies and procedures and that documentation is clear and complete. This in turn tends to limit managers' discretion in seeking innovative ways to manage materiel economically and efficiently.

**2.34 Budgetary control.** The present budgetary system reflects the need to maintain parliamentary control over government expenditures. Parliament normally votes funds separately for operations, capital, grants and contributions, and loans. Funds cannot then be transferred among these votes without further parliamentary approval. Therefore, a manager cannot make discretionary trade-offs between capital and operating funds.

**2.35** Within government, the Treasury Board's system of allotment control further limits transfers of funds, thereby limiting managerial flexibility in making trade-offs. Each year, allotments are set up for major items such as salaries, wages, other personnel costs, other operating expenditures, major capital projects and major contributions. Treasury Board approval is required for transferring funds between allotments. For example, if a manager has funds available in his salary allotment, he cannot use these funds to buy professional services under contract from outside suppliers without prior Treasury Board approval. Without these restrictions, managers could use salary funds, which became surplus when certain new positions could not be filled, for purchasing required materiel, even though the materiel items were not contemplated in the budget. They would be encouraged to do this by the budgetary system which tends to provide an incentive for spending all the funds provided rather than returning unspent funds. However, until appropriate performance measures can be developed and implemented for holding managers accountable, such restrictions on managerial authority will remain essential, even though they may limit managers' ability to make the decisions that they believe are the most appropriate under the circumstances.

**2.36 Signing authority limits.** Subject to broad limitations, sections 26 and 27 of the Financial Administration Act assign full signing authority to ministers and deputy ministers to the limit of their budgets. They, in turn, delegate this authority to appropriate levels within their departments. Problems can arise from the way signing authority is delegated. At each level, some part of the authority is delegated to a lower level, and the tendency is to pass on signing authority in a uniform manner based on rank and not necessarily on the needs of the operation. This then means that the operating manager immediately involved in providing service to the public and directly responsible for managing materiel items may not have the degree of signing authority within his budget that is commensurate with his responsibility to respond and adapt to changes in demands for service.

**2.37** In summary, managers in the public service are subject to many controls. The public sector manager is scrutinized by the central agencies, by Parliament and by the public. Central agency and departmental controls limit managerial discretion in allocating funds for different purposes and generate a significant amount of paperwork. The effects of competing policy objectives of different departments on the management of materiel add further to the problems of managing materiel economically and efficiently.

**2.38** In terms of the accountability of the operational manager, the combination of these and other environmental factors affecting the management of materiel emphasizes the need in the government context to draw a clear distinction between due regard for economy and efficiency and achieving economy and efficiency in an absolute sense. The following summary of audit observations, as well as the findings described later in this Chapter, should be read with this distinction in mind.

### **Summary of Audit Observations**

#### **Managers' Priorities**

**2.39** Our review indicated that managers' performance tends to be assessed mainly in relation to the quality of service provided to the public, and that managers believe that they leave themselves open to criticism if they fail to meet those expectations. If there are rewards for providing service to the public but not for managing materiel economically and efficiently, managers can be expected to establish their priorities accordingly.

#### **Lack of Information Systems**

**2.40** Our audit showed that managers were frequently faced with a lack of information upon which to base sound materiel management decisions. Across departments, we found a widespread lack of information systems for compiling financial and operating data that would enable managers to analyse options and compare their benefits and costs, measure in-service performance and utilization of materiel, and thereby assess the economy and efficiency of materiel management practices. Without such information, it is impossible to build an accountability system for achieving due regard for economy and efficiency.

**2.41** The absence of information systems, as well as a lack of performance standards, persists despite direction from the Treasury Board. We found that the development of these systems was given low priority by senior managers, perhaps because the lack of them does not produce repercussions, because managers perceive such systems to be an attempt to establish another layer of control that does not help them to manage better, and because they do not feel they have sufficient authority to make decisions based on such information systems.

### Compliance with Policies and Guidelines

**2.42** Treasury Board has directed departments to consider all relevant costs of a materiel item over its useful life and not just its purchase price or direct cost. When the nature of the acquisition is such that an analysis to determine "best value" is appropriate, Treasury Board, in chapter 310 of the *Administrative Policy Manual*, has stated that the following costs should be considered:

- Product Cost: the direct cost of goods and services delivered.
- Resource Cost: the indirect costs incurred within the requisitioning department and/or the common service agency in acquiring the materiel.
- Operating Cost: the cost of operating, maintaining and repairing the acquisition throughout its useful life, allowing for any value at disposal.
- Contingent Cost: the cost to the end user of not having the right goods, services or facility provided at the right place and at the right time.

**2.43** Various other Treasury Board policies and guidelines also indicate that departments should carry out life cycle costing. Full compliance based on adequate information has, however, been the exception rather than the rule. There appear to be at least two possible reasons. First, most departments do not accumulate the data that would enable them to determine these costs. Second, departmental managers do not believe that actual decisions are made on this basis, particularly since compliance is not monitored.

**2.44** According to Treasury Board guidelines cited previously, life cycle costing is the ultimate responsibility of departments. DSS-Supply is not in a position to control how departments apply this concept, and it is recognized that the client departments lack the costing systems needed to produce credible life cycle cost data. Consequently, DSS-Supply considers only acquisition costs in making many of its purchases, including high-cost, long-life items such as bulldozers and ships.

**2.45** In evaluating tenders for ship refits, the Marine and Industrial Machinery Products Centre of DSS-Supply had, on occasion, set aside life cycle costing even though the necessary information might have been obtained. The reasons for doing so included the possibilities of a loss of competition among shipyards, higher prices in the long term, and some shipyards losing their expertise for repairing certain types of vessels, to the detriment of the client department.

**2.46** Chapter 310 of the *Administrative Policy Manual* also requires departments to identify clearly the need for services to be provided and to analyse all

feasible options to determine the most cost-effective method of providing the service. Implicit in this statement is the requirement to define the "level of service"; that is, the frequency, duration and response time of the required service. This is necessary before determining whether it is more economical to provide the service through government resources or contract for it with the private sector.

**2.47** Across departments, we found a general lack of compliance with these and other key Treasury Board policies and guidelines governing materiel management. As noted previously, this may be partly because managers do not expect compliance to be monitored. Another possible reason is that central agencies have tended to issue policies and guidelines in response to both actual and expected problem situations as they were perceived. These were not always integrated with the body of policies and guidelines already in place. Such a system of detailed controls, some of which overlap and even conflict with others, makes it more difficult to hold managers accountable for the achievement of program objectives.

**2.48** The Administrative Policy Branch of the Treasury Board Secretariat is addressing these problems in the new and revised chapters on materiel in the *Administrative Policy Manual*. The Manual is intended to reflect a more integrated approach to policy formulation and to provide a consistent framework for the monitoring, evaluation and control of policies and guidelines.

**2.49** Virtually every aspect of sound materiel management is the subject of a Treasury Board policy or guideline; however, the Treasury Board had no system in place to monitor the total effect of all policies and guidelines in a practical way.

**2.50** This monitoring is essential for two reasons:

- Since policies and guidelines are issued because they are needed to ensure a desired result (such as uniform and fair treatment of employees or suppliers or proper control over expenditures), compliance with them should be monitored to make sure that this result is obtained.
- When a large number of policies and guidelines are in force concurrently, the only way of ensuring their appropriateness is by monitoring the extent to which they are being followed and, where they are not being followed, to find out why. In this way, monitoring can become a tool for improving the regulatory environment.

**2.51** The system called for by the Comptroller General's circular on co-ordination of audit activities (see paragraph 2.30) should help to improve the

monitoring of both departmental performance and compliance with Treasury Board directives. However, continuing consideration needs to be given to the complexity of the entire body of policies and guidelines affecting materiel management, including those referring to the budget process and personnel management, in order to assess their impact on managerial discretion and accountability.

**2.52** We found that the main concern of managers in government is with the quality of service provided to clients, whether these clients are members of the general public or other government organizations. Our audit has also shown that managers are willing to correct operational deficiencies. However, managers have consistently failed to develop and use the information systems necessary to ensure due regard for economy and efficiency.

### **Recommendations**

**2.53** In our opinion, the management of materiel in the public service can be considerably improved. The greatest opportunity lies in the development of better information and control systems. Such improvements would not only result in improved economy and efficiency but would also better define levels of service and provide a means for making managers more accountable for their actions.

**2.54** We recommend that departments should acquire materiel only when there is a clearly defined need for the service to be provided and only when selection and intended use of the materiel reflect due regard to economy and efficiency.

**2.55** This means that:

- The need for service and the level of service should be clearly defined and periodically re-examined.
- Departments should institute cost systems and performance standards to support decision making in materiel management and to ensure that materiel is stored, maintained and used economically and efficiently.
- Operating departments and the Department of Supply and Services - Supply Administration should jointly and consistently apply the concept of life cycle costing of materiel items to determine clearly the costs and implications of available options.
- Departments should comply with Treasury Board policies and guidelines in respect of materiel management.
- Treasury Board should assess the combined effect of all its policies and guidelines as they relate to the achievement of economy and efficiency in materiel management.

**2.56** The aggregate effect of these recommendations implies a major reappraisal of the function and structure not only of materiel management information systems but also of general management information systems in government.

### **Audit Criteria and Observations**

**2.57** We have organized our audit findings into five sections, corresponding to the five stages of the materiel life cycle: needs definition, requirements definition, acquisition, in-service and disposal. Each section provides an explanation of the life cycle stage and the reason for its importance, the audit criteria associated with it (in bold-face type) and summary findings. At the end of the Chapter, we set out summary reports on our audit projects.

#### **Needs Definition**

**2.58** Chapter 140 of the Treasury Board *Administrative Policy Manual* referring to major capital projects states that departments are responsible for defining their need for service and describing it comprehensively in relation to program objectives. This needs definition process should identify a number of different ways of satisfying the need for service (each having materiel as well as personnel and other cost implications). From these, management can select, with the relevant government policy objectives in mind, the option most likely to meet the need economically and efficiently.

**2.59** For example, a department charged with protecting the marine environment may find, as one element in its program, that it has a need for continuing surveillance of foreign vessels. Once the need for surveillance has been determined, the various ways in which it might be carried out, the kinds of equipment needed, and other costs for personnel and support services must be examined as part of estimating the costs of each option.

**2.60** If a department buys materiel to support a major project that does not clearly relate to program objectives, or if it acquires materiel based on inadequate information, not only will the acquisition probably be uneconomical but it may also cause an unwarranted commitment of additional resources in future years to operate and maintain it.

**2.61** **The need for service should be well defined and related to approved program objectives.**

- There should be an adequate and up-to-date statement of the type and level of service required.
- All reasonable ways of providing the service should be evaluated as objectively as possible.

- The need for the service should be regularly reviewed.

**2.62 Findings.** We found that, in about half of the 26 cases where we audited the needs definition stage, departments had not defined the need for service, and therefore the need for materiel, in relation to program objectives. Needs were often based on what had been done in the past. In some instances, we found that departments had adequately assessed the level of service needed; however, they had not always evaluated alternative ways of providing it.

### **Requirements Definition**

**2.63** Chapter 310 of the Treasury Board *Administrative Policy Manual* states that requirements definition includes many activities, commencing with the identification of a need, analysis of different ways to meet the need, procurement planning, preparation of plans, specifications and standards, and the statement of the requirement with respect to performance, time, service and cost. Although involvement by DSS-Supply is clearly intended, final approval for requirements definition rests ultimately with the client department.

**2.64** There is a logical division in this Treasury Board statement between the stage at which the need for a service is identified and that at which the most appropriate item to provide the service is determined. We have therefore treated each of these as independent stages, the first under the heading of *Needs Definition*, as previously described, and the second under the heading of *Requirements Definition*, as described below.

**2.65** Materiel requirements to support the need for a service should be defined and expressed in terms that will enable the right kind and quantity of materiel to be acquired at lowest life cycle cost. In the requirements definition stage, alternative kinds of materiel that can meet the need for service are identified and their costs and benefits over the life cycle of the materiel are analysed. For this stage of the life cycle, various options should be considered, such as whether to make, buy or lease and whether to overhaul or replace a piece of equipment.

**2.66** We would expect the requirements definition process to be carried out by departments:

- whenever the need for a new service, which involves the acquisition of materiel, has been defined;
- whenever there is a change in the nature or level of a need for service; for example, when the needs definition for fisheries patrols has changed as a result of the extension from a 12-mile zone to a 200-mile zone;

- periodically, to assess the benefits of acquiring improved materiel that can provide increased productivity or a better service, or to assess the benefits of technological developments that may change the available options; for example, word processing equipment to replace standard typewriters or the use of satellites in the place of aircraft for northern surveillance;
- whenever there is a choice between buying equipment and contracting for an equivalent service; for example, between owning snow clearing equipment or contracting for snow clearing services; and
- whenever existing, obsolete or worn out equipment needs to be replaced.

**2.67** If performance standards are not specified, there is a risk that equipment may be over-designed -- in which case it would cost more than necessary -- or under-designed -- in which case, levels of service, maintenance and operating costs would be affected. Inadequate analysis can result in wrong decisions and can greatly affect the later life cycle stages.

**2.68** The requirements for materiel should be defined in such a way that the materiel acquired will enable the user to meet the need for a given service in an economical and efficient manner.

- The choice among alternative types of materiel should be based on a thorough analysis of the relative costs and benefits.
- Specifications should be developed in relation to the operational conditions under which the materiel is to be used.
- Specifications should be stated in terms sufficiently clear to ensure that the materiel acquired meets user requirements.
- Maintenance programs and spare parts inventories should be related to the expected need for the services of the equipment concerned.

**2.69 Findings.** We found that in none of the 25 cases where we audited the requirements definition stage was there a system capable of producing all the operating and financial information required for developing sound make/buy analyses or for properly assessing alternative methods of meeting materiel requirements. However, major equipment requirements, such as vessels and aircraft, were often supported with reasonable technical analyses.

## **Acquisition**

**2.70** This is the stage in which materiel and related services are acquired after the requirements have been approved. The acquisition may be by purchase, lease/purchase, rental or transfer and requires appropriate documentation and commitment of funds. Use of the wrong procurement method can result in higher costs or late delivery of materiel.

**2.71** **Materiel should be acquired with due regard for economy at the time and in the quantity and quality required.**

- The materiel acquired should meet the specifications developed during the requirements definition stage.
- The process of acquisition should be initiated with sufficient lead time to ensure availability of the required quantity when needed.
- Responsibility for the various steps in the acquisition process should be clearly delineated.

**2.72** **Findings.** DSS-Supply has the primary responsibility for the acquisition stage. Although we found that activities clearly within the responsibility of DSS-Supply were generally well performed, problems have arisen in areas where departmental responsibilities were not clearly delineated. This is discussed in more detail in Chapter 9.

## **In-service Management**

**2.73** This stage includes the activities of storage and distribution, security and custody, utilization and maintenance of materiel. Chapter 216 of the Treasury Board *Administrative Policy Manual* states that departments shall ensure the most efficient storage and utilization of the materiel they have requisitioned by all possible means, including sharing with other users. Treasury Board Circular No. MI-1-65, *Guide for Materiel Management in Government*, states that departments should undertake value analysis for the nature of maintenance and repairs required, level of serviceability required, optional methods of undertaking the service and future availability and cost of maintenance parts and supplies. The in-service management stage includes:

- the facilities, installations, methods and procedures designed to receive, store, maintain, distribute and control the flow of materiel from the time it is received until it is issued to the user or is disposed of;
- the protection of materiel against any type of loss, including the control of access to materiel;

- the consumption of supplies and other types of materiel and the operation and maintenance of equipment;
- modifying equipment, either to extend its life or to increase its productivity;
- overhauling equipment, which entails replacing both worn and damaged parts and parts whose service life has expired; and
- performing routine, recurring work needed to ensure that equipment can continue to be used for its intended purpose and at the same capacity and efficiency at which it was designed to operate.

**2.74** Inadequate in-service management can result in excessive inventory, loss of materiel, or inefficient use of parts and equipment -- all with attendant higher costs. When proper information systems are not in place, utilization cannot be consistently monitored and efficiency cannot be measured.

**2.75** Inadequate attention to repair and maintenance scheduling and control can result in an excessive number of breakdowns and in the need for additional equipment to handle the work left undone because of inoperable machinery -- all at higher costs. At the same time, too much repair and maintenance can also result in unnecessary costs associated with labour, parts and down-time.

**2.76** **Inventory control, storage and distribution should be economical and efficient.**

- Inventory levels should be cost justified and related to needs.
- Decisions on the number, size and location of storage facilities should be based on appropriate cost information and service needs.
- Decisions on distribution methods should be based on adequate analyses, and distribution costs should be monitored.

**2.77** **Equipment should be properly utilized.**

- Standards for utilization time and productivity of equipment should be established.
- Utilization and productivity of equipment should be recorded and monitored.

**2.78 Repair and maintenance should be economical and efficient.**

- Maintenance programs should be linked to operational needs.
- Cost and performance standards for maintenance and repair should be established and used to monitor performance.
- In-house repair and maintenance facilities should be appropriately costed.
- Decisions on doing repair and maintenance in-house or by contract should be based on adequate analyses.
- Decisions concerning repair/replacement/disposal alternatives should be based on adequate analyses.

**2.79 Procedures should be in place to ensure adequate security and custody of materiel and to ensure that materiel is not misused.**

**2.80 Findings.** With the exception of aircraft maintenance, which is very closely controlled, most maintenance programs were based more on what had been done in the past than on current operational needs. In line with our findings relating to earlier steps in the materiel life cycle, we found that systems for providing information necessary for appropriate analyses were lacking. With the exception of aircraft operations in the Department of Transport, where adequate cost systems were in place, we found that the departments we audited lacked the costing systems necessary for determining the cost of holding inventories and for monitoring distribution and utilization of materiel. We also found only limited use of standards for measurement purposes.

**2.81** There were only a few instances of inadequate security and custody. These were promptly remedied by the departments concerned.

**Disposal**

**2.82** This stage is defined as the removal of materiel when it is either no longer needed or no longer useful. Treasury Board, in chapter 225 of the *Administrative Policy Manual*, states that departments are responsible for selecting that time in the life cycle for materiel disposal to maximize the sum of the benefits from use and disposal proceeds. Disposal is complete when surplus, obsolete or unserviceable materiel has been sold, traded-in or destroyed. Such disposals are normally arranged by the Crown Assets Disposal Corporation.

**2.83** Retaining unneeded materiel requires space, generates other additional costs and prevents potential revenues from being realized. Moreover, if information systems are inadequate for signalling the most economic time in

the life cycle to dispose of materiel, the Crown may not be able to obtain the maximum net return for the materiel.

**2.84 Disposal should yield maximum net benefit to the Crown.**

- The retain/dispose options should be regularly reviewed.
- The costs of holding items should be identified.
- Items should be disposed of if there is no continuing need for them.

**2.85 Findings.** In general, we found that departments lacked information on materiel usage, how long materiel had been available for disposal and the cost of continuing to hold it. Accordingly, we had difficulty in determining both the extent to which departments retained equipment and supplies longer than necessary and the cost of so doing.

**Importance of Information Systems**

**2.86** It is generally accepted that economical and efficient management of materiel depends on the availability of timely, relevant and reliable information on costs and utilization. To give due regard to economy and efficiency, the manager must know:

- what is being done;
- why it is being done;
- how well it is done; and
- what it costs.

This means that there must be management information systems that reliably record performance and costs. Our audit indicated that the quality and availability of such information in government were generally poor. In some cases, the information was either incomplete or of doubtful relevance to the decisions that had to be made. Although in some instances management did have some of the information systems needed to support decisions about materiel, there was also evidence that their attempts to use this information systematically were inadequate.

**2.87** None of the departments that we audited was, in our view, providing enough materiel management information to managers. It is essential that departments place much more emphasis on upgrading the quality and timeliness of information, if materiel management in government is to improve generally.

## **Case Illustrations**

### **Purpose and Structure**

**2.88** The purpose of the examples that follow is to illustrate the nature and magnitude of materiel management systems problems described in the foregoing text. In some cases, these problems, in our view, stem from underlying systems weaknesses that are government-wide; in other cases, individual departments could have taken the initiative to develop and use better information systems for materiel decision making.

**2.89** As stated earlier in the audit scope section of this Chapter, we drew our examples from 11 organizations and reviewed the management of materiel in terms of life cycle criteria which closely parallel existing Treasury Board requirements. In reporting the case illustrations, however, we found that it would be impossible to give a fair presentation if we set out the findings in relation to each life cycle stage, since problems in one stage, such as utilization or maintenance, frequently stem from problems in earlier stages which are the responsibility of other managers. Thus, the illustrations report our observations with respect to those criteria we deemed most important in the circumstances.

### **Aircraft**

**2.90 Non-combat aircraft - Department of National Defence.** The Air Transport Group (ATG) of the Department conducts strategic and tactical airlift operations world-wide, operates an air transport service and commands primary air Search and Rescue forces for all regions of Canada.

**2.91** The ATG logs about 71,000 flying hours annually of which 12,000 are for Search and Rescue activities. The group has three air fleets consisting of 83 aircraft of 10 different types and employs about 1,300 military personnel. Peacetime uses of air transport combine operational flying practice and training with airlift tasks, thus increasing utilization of the air fleets.

**2.92** The Department places reliance on Air Canada and the United States Military Airlift Command for augmentation of airlift capacity in cases of emergency without having obtained commitments from these agencies on the minimum number, type or configuration of aircraft they are prepared to supply. As a result, the Department cannot be assured, as part of its requirements definition, of being able to provide the required level of airlift service in all emergency situations.

**2.93** At the in-service stage, we found that the elements of cost which the Department used in aircraft parts inventory management were incomplete. Because the Department did not have an adequate costing system, it could not assess whether the materiel used in support of transport aircraft was being

managed with due regard for economy and efficiency. However, the operational systems used for managing aircraft flying hours, and the repair, maintenance and overhaul of aircraft met our criteria for in-service management.

**2.94 Civil aircraft - Department of Transport.** The Canadian Air Transport Administration (CATA) of the Department of Transport is responsible for developing a safe and efficient national civil air transportation system and for operating specific elements of this system. CATA also provides aircraft services for the Canadian Marine Transportation Administration (Coast Guard) and the Department of Fisheries and Oceans.

**2.95** CATA has a fleet of 55 fixed-wing aircraft and 37 helicopters with a net book value of about \$50 million. These aircraft support four main roles: operation of the VIP fleet; calibration of navigational aids; airport inspection and regulation; and the Coast Guard and Fisheries aircraft services. Annual aircraft operating costs approximate \$14 million.

**2.96** Our review indicated that the Department did not always follow adequate procedures at the operational level to evaluate aircraft requirements. In planning for aircraft operational availability and utilization, the Department did not have appropriate procedures for workload analysis. However, at all other stages of the life cycle with respect to the management of civil aircraft, the Department met our audit criteria.

### **Ships**

**2.97 Ships - Department of Transport (Coast Guard).** The Department of Transport's Canadian Marine Transportation Administration (Coast Guard) operates some 79 major vessels with a book value of \$350 million, about one-quarter of their replacement cost. Along with support facilities, the estimated cost of Coast Guard operations in 1979-80 was \$264 million and its manpower was approximately 6,000 person-years.

**2.98** The Coast Guard provides support for waterborne commerce through facilities and services that promote the safe and efficient movement of marine traffic. It operates icebreakers, supply and navigation aid vessels, search and rescue vessels, as well as specialized vessels for meteorology, maintaining channels and laying submarine cables.

**2.99** Our review concentrated on the in-service stage of Coast Guard materiel management.

**2.100** Eleven depots in five regions supply materiel to ships from a stores system or by purchase from suppliers. Control systems and procedures for

management of the stores inventories were adequate. This was not the case, however, with respect to inventories of materiel and engineering spares obtained directly by purchase from suppliers and carried by each major vessel in the Coast Guard fleet. Shipboard control of these items (value estimated at more than \$20 million) has been informal, with information on the amount, value and consumption ranging from complete listings to none at all. We have been advised by the Department that steps have been taken to put into place improved systems for the management and control of materiel and engineering spares.

**2.101** We found that the Coast Guard had no formal maintenance planning systems for vessels. We have been informed by the Department that manuals for planned maintenance have been drafted and implementation details are now being developed.

**2.102 Search and rescue ships - Department of Transport (Coast Guard).** The Coast Guard provides the vessels dedicated to marine search and rescue (SAR) assistance with additional assistance being provided by vessels of the Department of Fisheries and Oceans and other government agencies. Overall co-ordination of SAR is provided by the Canadian Forces, which are also responsible for search and rescue in connection with air incidents and provision of aircraft resources in response to marine incidents.

**2.103** The Coast Guard's search and rescue fleet consists of vessels ranging from 15-foot inflatable rescue boats to over 200-foot offshore cutters. The 1979-80 Coast Guard Estimates provided for expenditures of \$18.8 million and 574 person-years for search and rescue, accounting for 90 per cent of Federal Government expenditures on marine search and rescue.

**2.104** Our review of the needs and requirements definition stages for ships in the search and rescue fleet indicated that, although the Department had extensive systems for planning search and rescue operations and expenditures, there were weaknesses in these systems.

**2.105** The Interdepartmental Committee on Search and Rescue had adopted an objective which stated that the Coast Guard should:

maintain a sufficient level of SAR response capability to ensure a reasonable probability of locating and rescuing persons in marine situations where lives are at risk or where deteriorating circumstances are such that if prompt action is not taken risk of life is imminent.

**2.106** The planning system focused on acquiring materiel to meet the increasing demand for search and rescue assistance and to conduct accident prevention programs.

**2.107** Although there was expressed concern that search and rescue services were being abused, the possibility of reducing the demand through the levying of charges or some form of cost recovery when services were abused was not given adequate consideration.

**2.108** Reports issued by the Department of National Defence indicate that the vast majority of marine incidents did not involve distress. The Coast Guard had recognized that information on the nature of incidents was inadequate and was developing a system to provide improved information.

**2.109 Ships - Department of Fisheries and Oceans.** The Department of Fisheries and Oceans operates a fleet of 268 vessels for fisheries control and protection and for oceanic research. The total estimated replacement cost of the fleet is \$339 million. Fleet related resources in 1979-80 were about 950 person-years, \$32 million operating expenditures (excluding salaries), \$12 million capital costs, and \$12.4 million charter costs.

**2.110** The Department generally had established adequate systems for carrying out the needs definition stage. Also, to meet its needs, the Department was using alternatives to ships, such as aircraft for surveillance and observers placed on foreign vessels to monitor their catches.

**2.111** To assist it in defining requirements, the Department had developed at Headquarters a five-year Vessel Acquisition Strategy Plan for major ships. We found that regions were developing their own plans to accomplish for smaller vessels what the Headquarters plan did for major ships.

**2.112** We found, however, that the Department did not have a mechanism for ensuring that the interests of all users were considered when developing the specifications and design features of new ships. As a result, the needs of some critical users, particularly fleet operations personnel, had been overlooked in some major acquisitions. Since our audit, we have been advised by the Department that procedures have been implemented to ensure consideration of the needs of both users and operators early in the design of new vessels.

**2.113** As part of the in-service stage, the Department operates its own repair facilities in a number of locations. The Department's financial reporting system did not identify expenditures on its in-house repair facilities. As a result, the Department could not assess whether its repair facilities were being operated economically and efficiently.

## **Vehicles**

**2.114 Trucks - Department of Supply and Services - Supply Administration.** The Capital Region Supply Centre of the Department of Supply and Services -

Supply Administration has a trucking operation consisting of 34 trucks, 6 trailers and 42 employees. The annual budget of this operation is about \$1 million. Two services are provided by the Centre. Twenty-two trucks are rented with drivers to other divisions of the Department and twelve trucks are used to deliver stocked items (furniture, paper, forms and other office supplies) to government departments and agencies in the National Capital Region, Kingston and Petawawa. Vehicles and drivers for the two services are interchangeable. Commercial truckers are used when the workload exceeds the capacity of in-house resources.

**2.115** The Capital Region Supply Centre has set high standards for the delivery of stocked items and has maintained enough in-house trucking capacity to meet the requirements of peak workloads. Workload fluctuates widely. Available information on truck utilization was not formally analysed and reported to senior management of the Capital Region Supply Centre. Such information could be used to enable them to determine the optimum number of trucks and the extent to which commercial truckers should be used, as well as to review the need for the level of service being provided.

**2.116** The rental service provided by the trucking operation has become increasingly uneconomic when compared to other options in recent years, and DSS-Supply has estimated that the cost of certain rental services, which is now \$400,000 per annum, could be reduced by up to \$100,000 if the services were purchased from private sector contractors. DSS-Supply is examining the implications of meeting its requirements by contracting this service out.

**2.117** We also examined the maintenance and disposal practices for the trucking operation and concluded that these practices met our audit criteria.

**2.118 Vehicles - Parks Canada (Department of the Environment).** Parks Canada operates a fleet of 1,300 vehicles with gross weights under 10,000 lbs. These include automobiles, pick-up trucks, ambulances, motor cycles and snowmobiles.

**2.119** Parks Canada did not adequately define the need for the services provided by its vehicles. There was no regular review of the need for all the vehicles at each site. Management relied on internal challenge and review of requisitions for new or replacement vehicles. Although additions to the fleet were reviewed, existing vehicles were usually replaced on a one-for-one basis with a minimum of challenge.

**2.120** We were informed that the DSS Fleet Management Information System for analysing costs and maintenance records was not meeting managers' needs with respect to timeliness and level of detail. However, a new system being used at Banff and Jasper national parks may remedy these defects and will eventually be extended to the other national parks.

**2.121** In the other stages of the life cycle, Parks Canada fleet management systems generally satisfied our criteria.

**2.122 Vehicles – Post Office Department.** The Post Office operates a fleet of vehicles for collecting and delivering mail. It owns or leases 3,800 vehicles consisting of 3,200 light trucks, 400 medium trucks, 120 passenger cars and various other vehicles at a total annual cost of \$70 million. The vehicles are used for collecting mail from letter boxes, delivering parcels, taking mail to airports and post offices, taking letter carriers to their walks and delivering letters on motorized routes. The Post Office operates its own maintenance garages in Montreal, Toronto and Ottawa and contracts out most repair and maintenance in other areas.

**2.123** In general, we found that the Post Office did not have systems adequate to ensure due regard for economy in the management of its fleet of vehicles. It has recently, however, completed an extensive review of fleet management and is in the process of implementing improvements.

**2.124** We found that a comprehensive analysis of the costs, benefits and consequences of operating its own fleet versus contracting out for the services had not been carried out.

**2.125** During the acquisition stage, life cycle cost analysis was not carried out to analyse alternatives; for example, the acquisition of aluminium body versus steel body step vans. In addition, as a result of the effect of cuts in the Post Office budget, vehicles were not always replaced at the most economic time.

**2.126** The Post Office did not have an adequate cost accounting system to determine the unit costs of its collection and delivery services. Therefore, it could neither compare its costs with outside contractors nor develop targets for improvement in the costs of fleet operations.

**2.127** The Post Office was making improvements in the management of vehicles. For example, it had developed and was implementing a Workload Structuring System which should provide the necessary controls over the number of vehicles operated.

**2.128** Although efforts had been made to improve the systems for controlling maintenance and repair costs, they were still unsatisfactory. The Department was not satisfied with the DSS Fleet Management Information System and was seeking an alternative. Arrangements for contracted repair and maintenance of vehicles did not ensure that adequate cost estimates were obtained before work was performed.

**2.129      Vehicles - Royal Canadian Mounted Police.**    The Royal Canadian Mounted Police (RCMP) has a fleet of about 4,700 cars and 800 light trucks which are used by approximately 15,000 personnel in the performance of their duties. Annual fleet mileage is approximately 118 million miles. Annual operating costs and capital costs excluding salaries are about \$19 million and \$16 million respectively.

**2.130**      The RCMP's need for transportation is related to specific police functions and transportation requirements. Ratios of staff to vehicles have been established and are used to determine fleet requirements. Cars are then replaced at disposal on a one-for-one basis.

**2.131**      Vehicle specifications for police requirements are subject to formal review and approval. These specifications are documented in the Department of Supply and Services' publication, *Government Motor Vehicle Specifications - RCMP*.

**2.132**      The RCMP primarily buys those vehicles which are offered by manufacturers as part of their police packages and has established appropriate procedures to ensure that new vehicles meet contract specifications for equipment and servicing.

**2.133**      Although the RCMP had a policy which required that two per cent of its fleet be kept in reserve for emergency purposes, we found that the reserve was in excess of four per cent, partly because of recent changes in the method of disposal. The RCMP had, however, not yet analysed its reserve requirements to determine an appropriate level.

**2.134**      In recognition of the potential for increasing vehicle utilization by further pooling vehicles, the RCMP was implementing a policy to expand the pooling of vehicles. This should help maximize use.

**2.135**      The RCMP was following the Treasury Board mileage and age guidelines for the disposal of vehicles. However, the RCMP could not give adequate attention to specific vehicle condition and potential future repair and maintenance costs at the time disposal decisions were made since the specific delivery time for new vehicles could not always be determined. Improvements in this area should arise from recent changes in the method of disposal.

**2.136**      We were informed by the RCMP that the Department of Supply and Services' Fleet Management Information System did not provide adequate information for management of the RCMP fleet. The RCMP has proposed changes to this system which may correct some of the problems.

## **Weapon Systems**

**2.137      Ammunition - Department of National Defence.** The Department of National Defence maintains a stock of ammunition to meet operational and training needs.

**2.138**      In 1978, the Department carried out a thorough study of its ammunition policies and activities. As a result, it formed an Ammunition Task Force in 1979 to establish effective control over ammunition forecasts, requirements, allocations and expenditures. The Task Force completed its work in the summer of 1980 and was replaced by three environmental working groups and an advisory group. These groups are implementing improved information systems and techniques for validating ammunition requirements.

**2.139      Weapons systems - Department of National Defence.** The Department of National Defence operates a variety of weapons systems ranging in complexity and cost from the new fighter aircraft to small arms.

**2.140**      We reviewed the needs definition, requirements definition and acquisition stages of the Leopard Tank project, and the acquisition stage and certain aspects of the in-service management stage of the 1 1/4 ton truck project.

**2.141**      Following a study of alternatives, the Department purchased 128 Leopard Tanks at a cost of \$187 million. We found that the Leopard Tank procurement demonstrated due regard to economy and efficiency.

**2.142**      Similarly, procedures followed by the Department in the procurement of 2,848 modified commercial 1 1/4 ton trucks demonstrated due regard to economy and efficiency.

## **Production Equipment**

**2.143      Ship Repair Unit (Atlantic) - Department of National Defence.** The Ship Repair Unit (Atlantic) is one of two principal ship repair facilities operated by the Department. The other major facility, the Ship Repair Unit (Pacific), is located at Esquimalt, British Columbia. The purpose of these facilities is to support the Department's ships and bases with routine running repairs (second line maintenance), as well as to provide major ship refits and overhauls (third line maintenance). The SRU(A) employs about 1,800 unionized hourly paid personnel as well as a small number of salaried public servants and military personnel. The wages paid at SRU(A) exceed \$30 million annually.

**2.144**      We found that the requirement for ship repair capacity had not been clearly defined. We also found that management did not have adequate systems

to measure efficiency. Accepted industrial engineering practices had not been used to develop work standards and methods and there was a general lack of information on costs and productivity. No attempt was made to compare the operations of the SRU(A) with those of either the Ship Repair Unit (Pacific) or other similar establishments.

**2.145** We were informed by Department officials that the environment in which the SRU(A) operates is such that the additional and improved information which could be generated might not lead to improved efficiency. This is because management of the SRU(A) does not have sufficient control over matters such as human resource decisions, supply availability and capital equipment acquisitions.

**2.146 202 Workshop Depot - Department of National Defence.** The 202 Workshop Depot at Longue Pointe, near Montreal, is primarily responsible for providing third line maintenance support for the Department's land-based equipment. It also assists in ship refits, provides some engineering support and is used for training purposes. Third line maintenance involves complete overhaul and rebuilding of parts, components and whole units such as vehicles, communications and radar equipment, and weapons systems. It requires production line capability and specialist test equipment. The Department's policy is to contract for third line maintenance as much as possible. The Workshop is used when security or operational requirements dictate, when there are no contractors available, or when the work is minor or is required to maintain in-house expertise. The Workshop has an establishment of approximately 570 person-years. Total Workshop expenditures are not readily available since they are accounted for under various departmental responsibility centres.

**2.147** We found that the Department had not periodically evaluated the performance of 202 Workshop Depot to ensure that it continued to meet defined needs in the most cost effective manner.

**2.148** We found that management did not have adequate systems to measure the efficiency of the Workshop. Most of the standards used to plan and control production were based on historical data rather than on engineered standards. Efficiency and productivity data were generally not available and cost information used to decide whether to replace or repair spare parts was not based on actual production costs. Production costs used were based on the average hourly rate of different types of maintenance and repair and different establishments. The rate was set at \$12 in 1975 and was not changed until 1980 when it was increased to \$21.26.

**2.149** We were informed by Department officials that the environment in which the Workshop operates is such that the additional and improved information which could be generated might not lead to improved efficiency. This is because management of the Workshop does not have sufficient control over matters such as human resource decisions, supply availability and capital equipment acquisitions.

**2.150 Quality Engineering Test Establishments - Department of National Defence.** The Quality Engineering Test Establishments (QETE) provide laboratory testing and field and advisory services of an engineering and scientific nature. Their objective is to support quality assurance, design, development, production and maintenance of the Department's instruments, weapons and scientific equipment. QETE also provides services to other levels of government in Canada, the U.S. Department of Defense, foreign governments and industry. In 1979-80, its capital and operating expenditures were approximately \$5 million and it had an establishment of 190 person-years.

**2.151** Generally, we found that QETE defined its materiel requirements clearly, provided adequate safety and security for test equipment, and appeared to exhibit an appropriate concern for the technical quality of the work. It had also made progress in semi-automating tests using computers, technology and standardization. In addition, QETE and the Department of Transport had combined their program of testing tires and lights to achieve economies of scale.

**2.152** We found that the needs for QETE services had not been clearly defined and that the Department had not adequately investigated alternative methods of providing the services currently being rendered by QETE.

**2.153** QETE did not have an adequate costing system. This made it difficult to establish appropriate charge out rates for services rendered to clients or to make decisions on whether to do work in-house or to contract it out. Other areas of the information systems were also weak. For example, the use of QETE's own calibration information system duplicated, to some extent, the effort of the department-wide system.

**2.154** We were informed by the Department that QETE is phasing in its use of the departmental system over the next three to five years. Reports used to monitor operations seemed unnecessarily voluminous and did not lend themselves to managerial accountability. Appropriate work standards for routine testing had not been developed and used to improve work scheduling and to permit efficiency to be measured.

**2.155 Workshop facilities - Department of Transport (Coast Guard).** The workshop facilities at the Department of Transport base at Prescott, Ontario support Coast Guard operations by making repairs to vessels and navigation aids. Spare capacity arising from demand fluctuations is used to manufacture items that are too difficult or costly to obtain from industry.

**2.156** The workshops contain almost 400 pieces of manufacturing equipment at a depreciated book value of \$300,000. During World War II, the shops employed over 100 machine operators. The present level of 16 persons has remained constant for the last five years.

**2.157** The large inventory of equipment originated from the war-time role of Prescott as a manufacturing centre. Much of the equipment is antiquated and has little disposal value. Plans to dispose of it have been deferred, pending a decision on proposed new buildings at Prescott.

**2.158** In the review of the Prescott Workshops, we examined only the in-service stage. We found a general absence of formal control systems, as might be expected in a situation employing only a few operators where, particularly for maintenance operations, only informal control systems are needed. Supervisors can judge employee performance and estimate the work content of short cycle repair work. Formal control systems are uneconomic and time consuming in an environment such as the Prescott shops; however, there is still a need for management to review costs and output periodically on a reasonably formal basis to ensure that the operations are adequately controlled.

**2.159 Production tooling - DSS-Supply.** DSS-Supply acquires and manages unique production tooling required in the manufacture of aerospace and armament products, primarily for the Department of National Defence. The tooling is acquired at the time of the initial manufacture of such products and is available for use in the manufacture of additional units or spare parts at a later date. Most of the production tooling has remained with the original manufacturer because there has been no need for additional units or parts. The remainder has been transferred among competing manufacturers as and when required.

**2.160** The current inventory of production tooling was acquired at a cost of about \$80 million, the majority being for major defence contracts in the 1960s. In recent years, the trend in defence programs has been to buy complete weapon systems from international contractors, and the ownership of the production tooling remains with the suppliers or other parties.

**2.161** We found that criteria for the storage and use of tooling after acquisition had not been developed, and information on the cost of managing and refurbishing tooling was not available. In addition, DSS-Supply had not analysed the relative costs and benefits of the option of leaving the ownership of tooling in the hands of contractors.

**2.162** At the time of our audit, a departmental task force was investigating means of reducing the inventory of production tooling and was developing a management control system.

**2.163 Physical testing equipment - Department of Energy, Mines and Resources.** The Canada Centre for Mineral and Energy Technology (CANMET) operates physical testing machines to carry out tests on the properties of rock, concrete and metal. These tests are part of research programs in mining techniques, construction materials, and metal production and fabrication.

**2.164** In general, we found that the Department's systems, although informal, contained adequate controls. CANMET examined alternative ways of obtaining testing services through purchasing or leasing equipment or through contracting. Some new equipment was acquired without a clear definition of requirements; however, this equipment was modular and essential to any final configuration acquired. At the time of our audit, CANMET was studying how to define requirements better for future acquisitions.

**2.165** Apart from a computerized inventory control system, CANMET had no formal information systems for assessing the cost and performance of its equipment. Nevertheless, each laboratory manager was fully aware of the extent of utilization, maintenance costs and downtime of equipment and had sufficient information to make well-supported decisions. This should give rise to a concern, however, that so much of this informal system depended on retaining key personnel.

**2.166 Civil engineering equipment - Parks Canada (Department of the Environment).** Parks Canada operates 28 national parks, 10 historic canals and 67 national historic parks or sites. The 1979-80 budget was \$198 million, covering 5,188 person-years. Parks Canada has a large fleet of civil engineering equipment to provide various services including town site maintenance, visitor services, interpretation services, warden services, accommodation, and road and building maintenance.

**2.167** This fleet of equipment consists of over 1,000 items including snow-plows, bulldozers, cranes, dump trucks, street sweepers and many other machines. The equipment is used to keep highways free of snow, roads paved, hiking and fire trails clear and townsites in operation.

**2.168** Parks Canada had not clearly defined its needs, in that the level of services to be provided had not been specified. Maintenance standards for roads, buildings, camp sites, etc. had not been defined. Similarly, levels of service for snow removal on major highways had not been established. As a result, individual parks were not able to determine the optimal number and types of equipment required. The Department had already recognized this weakness and was testing a new system at Waterton Park to define maintenance standards and levels of service, to determine the type and amount of equipment required, and to measure performance against targets. If the new system is successful, it is to be implemented in other parks.

**2.169** Parks Canada was not using the information available for assessing equipment utilization and for taking appropriate action to optimize utilization through sharing, renting and/or disposing of equipment where warranted.

**2.170 Mechanized letter sorting equipment - Post Office Department.** The Post Office is coming to the end of a period of extensive mechanization of letter sorting. Twenty-nine postal plants use mechanized letter sorting equipment costing in excess of \$150 million. These plants handle a large part of the six billion pieces of mail processed by the Post Office each year. Only the in-service stage of the materiel life cycle was examined. This included the acquisition of replacement parts.

**2.171** For mail to be processed on time and correctly forwarded, the equipment must be maintained in a condition that permits it to perform within acceptable error rates. The Post Office had standards for processing speeds and error rates, but reliable performance information was not always available. The national system for the measurement and reporting of error rates had been discontinued at some locations.

**2.172** Systems and procedures were in place for the maintenance of the mechanized equipment. However, analysis of the cost of maintaining and repairing equipment was limited, and cost comparisons were not made against standards or between plants. Machine downtime and causes of breakdowns were not being analysed systematically.

**2.173** The Post Office has attained considerable savings in the acquisition of replacement parts.

**2.174** Systems in place did not ensure that inventories of machine parts were managed with due regard for economy. Information on usage rates, local inventory levels and frequency of stock outs was inadequate to establish economic inventory levels.

**2.175 Dredging equipment - Department of Public Works.** The Department of Public Works (DPW) keeps ports, harbours, canals and other waterways open through dredging to remove built-up silt. The dredging sites are administered by various departments and agencies. For example, the Department of Fisheries and Oceans is responsible for all small craft harbours. The principal decisions DPW has to make in providing dredging services are:

- how to establish priorities for and meet dredging requirements;
- whether to contract for the dredging service or to acquire, operate and maintain its own fleet; and
- what numbers and types of vessels are required for its own fleet.

**2.176** As part of the Marine Program, the dredging operation removes five to seven million cubic metres of silt annually. The work is done by both DPW's own

dredging fleet and commercial firms. DPW's fleet operates in four of the six regions in Canada - Atlantic, Quebec, Western and Pacific. It consists of 24 dredges and 84 support craft such as tugs, scows, house barges and survey vessels. In 1978-79, DPW's own dredging fleet cost \$8.6 million, including salaries and wages, and employed 303 person-years.

**2.177** Although each district considers inputs from surveys, port committees, previous experience, provincial authorities and other external sources in drafting its dredging program, we found that the level of service for dredging needed to be defined clearly, and in collaboration with DPW's clients, to provide a sound basis for the planning of dredging operations. A clearly defined level of service, including a review of all reasonable options, would be the basis for a fleet plan that would specify the number and types of vessels required and would include a replacement plan. Such a plan did not exist.

**2.178** For example, we found that in the Atlantic region, the fleet of 9 dredges was increased to 10 in 1978-79. Another dredge was acquired in 1979-80 to replace an existing dredge. We did not find any evidence that these decisions were based on a fleet plan which took into account the expected demand for dredging services and the various options for meeting those services.

### **Snow Clearing Equipment**

**2.179** **Snow clearing equipment - Department of National Defence.** The Department operates a number of bases having airport and runway facilities. A fleet of trucks, truck-mounted plows, sweepers, snow blowers and chemical spreaders removes snow and ice from runways, ramps and taxiways. The replacement value of this equipment is about \$40 million.

**2.180** The need for snow and ice control at a base is determined from an analysis of weather conditions, physical layout and operational requirements of the base. Each base had a Snow and Ice Control Plan that specified priorities for snow clearance as well as equipment deployment and use plans. The Department was keeping abreast of snow and ice control technology, and its approach to defining its need for snow and ice control equipment met our criteria for the needs definition stage.

**2.181** We also found that appropriate management information systems were in place for the control of the utilization, custody and maintenance of snow and ice removal equipment.

**2.182** **Snow clearing equipment - Department of Transport.** The Department of Transport operates and maintains some 100 civil airports across Canada. Snow removal and ice control is a major winter operational activity needed to ensure safe and efficient aircraft and vehicle manoeuvering surfaces. The mobile

equipment employed consists generally of truck-mounted plows, towed runway sweepers and self-propelled snow blowers. The total replacement value of this equipment is about \$130 million. Each year the department spends about \$3.8 million on new equipment.

**2.183** In the needs definition and requirements definition stages, the Department demonstrated due regard for economy and efficiency.

**2.184** In addition, systems for assessing and controlling equipment performance and utilization rates were in place and operating satisfactorily. However, because of person-year constraints, fewer equipment operators than needed to operate the equipment under severe storm conditions had been authorized at most major airports. Therefore, under some conditions, the stated levels of service could not be met.

### **Attractive Items**

**2.185 Attractive equipment - Department of Industry, Trade and Commerce.** The Department of Industry, Trade and Commerce, like most government departments, owns "attractive" equipment such as cameras and film, radios and television sets, tape recorders, dictaphones, typewriters and calculators. The Department has approximately 3,000 of these items with a book value of \$2 million.

**2.186** We found that the need for attractive equipment had been defined and related to operational requirements. In addition, we found that the Department had procedures in place to ensure that equipment requirements satisfied the need for service. These procedures were reasonable and met our audit criteria. However, they were not always followed.

**2.187** Acquisition was conducted through DSS-Supply. The system used contained appropriate controls and procedures.

**2.188** Security and custody of equipment was not completely satisfactory. Out of a sample of 148 items, we could not locate 20 items. In addition, several were located only after a lengthy search. After we had completed our audit, the Department told us that most of the missing items had been accounted for and that it would reconcile a physical inventory count of attractive items with its inventory control records.

### **Clothing**

**2.189 Uniforms - Post Office Department.** Uniforms and other types of clothing are supplied to almost 35,000 of the 53,000 employees of the Post Office. The Post Office spends about \$4 million annually on clothing and uniform issue.

**2.190** The need for clothing and uniforms was adequately defined by the collective agreements covering five bargaining groups. The requirements and specifications for uniforms were also adequately defined through a joint management-union Uniform Committee.

**2.191** The Post Office lacked an adequate information system to ensure that inventory management operated with due regard for economy and efficiency. Total costs, including inventory, storage and distribution costs, were not known, and key data, such as usage rates, inventory levels and frequency of stock outs, were not analysed. Consequently, decisions on inventory levels and locations were unlikely to result in the most economic and rational choices. A departmental guideline defines a safety stock in the range of 30-35 per cent of annual issue. No analysis was found to support the choice of this level of safety stock.

**2.192 Uniforms - Royal Canadian Mounted Police.** About 12,000 of the over 16,000 members of the RCMP are uniformed members. The annual cost of the uniforms issued to members is about \$2.5 to \$3 million. The 1978-79 year-end inventory was \$5.5 million. Uniforms are supplied in three ways - original issues to recruits, replacement of worn items, and repayment issues.

**2.193** In general, the RCMP managed the supplying of uniforms with due regard for economy and efficiency. However, we noted some areas in which there was scope for improvement. For example, in determining prices for repayment issues, the RCMP follows Treasury Board policy by adjusting the average purchase cost as new shipments are received and then applying a mark-up; however, it does not give full consideration to other costs such as storage, transportation, distribution and handling. The RCMP should document its policy and procedures for the calculation of the allowance paid to members to cover the purchase of these items.

**2.194** An analysis of the inventory locations and distribution network might also reveal opportunities for savings.

#### **General Use Items**

**2.195 Furniture and appliances - Department of External Affairs.** The Department of External Affairs has approximately 2,000 staff quarters located at 108 different posts around the world. At the time of our audit, Crown furniture and appliances had been provided from Canada for about 1,400 of these staff quarters. Expenditures for the purchase of furniture and appliances for this program in 1978-79 were about \$3.9 million.

**2.196** The need to furnish staff quarters is determined by the presence of government representatives abroad. We found, however, that the Department had not based its decision to supply Crown furniture and appliances, as against

alternative ways of furnishing staff quarters, on a complete and objective analysis of all relevant costs and benefits. The Department has since advised us that a departmental study on this matter is now under way.

**2.197** Furniture purchases were based on Headquarters' estimates of posts' requirements for new and replacement furnishings. The quantity of furnishings supplied for individual staff quarters was based on published authorization tables. The Department stated that it buys medium to high quality furniture to minimize life cycle costs.

**2.198** The acquisition of furnishings was co-ordinated with DSS-Supply and based on least cost. In this respect, it met our audit criteria.

**2.199 Stocked Item Supply - DSS-Supply.** The Department of Supply and Services - Supply Administration acquires commercial products in wide general use throughout government, including items such as office furniture and office supplies. It stores them in regional warehouses and 10 self-service stores and sells them from those locations to customer departments and agencies. This service, referred to as Stocked Item Supply, is discussed in Chapter 9, the comprehensive audit report on DSS-Supply.

## **Utilities**

**2.200 Heating/cooling plants - Department of Public Works.** The Department of Public Works is responsible for supplying steam and/or chilled water for heating and cooling government-owned and certain other buildings. The Department operates 35 plants with a staff of 236 people within the National Capital Region. Seven of these are large central plants. For example, the largest, the Cliff Street plant, has an annual operating budget approaching \$4 million. It heats 39 buildings with an aggregate of 939,000 square metres and cools 20 buildings totalling 664,000 square metres.

**2.201** In the National Capital Region, the Department also supplies steam and chilled water to, and recovers part of the costs from, buildings such as the Chateau Laurier Hotel, the Children's Hospital of Eastern Ontario, the Bank of Canada and The Rideau Veterans Home. The policy of charging users for services was set by the Treasury Board in 1968 when it stated that the Department could supply Crown corporations, public hospitals and educational facilities. The institution would pay for any additional capital costs, connection costs and unit rates based on total operating and maintenance costs.

**2.202** The Department has carried out extensive analyses of the need for heating and cooling services and has prepared statements of the level of service to be provided. In the analyses, the alternatives of central versus integral plants were evaluated. The feasibility of different fuels was considered. Capacities

were reviewed in relation to demand. Unit costs were calculated and analysed. Repair and maintenance standards and procedures were well defined and appropriate. However, capacities were based on forecast growth load which did not materialize. This resulted in the present excess capacity for heating and cooling in the Cliff Street plant, the single largest plant operated by the Department. DPW informed us that this was owing to factors beyond its control.

**2.203** The standard used for comparing alternatives was boiler or chiller efficiency rather than the industry standard of cost per area heated or cooled. The Department completed the installation of meters for buildings served by central plants in the spring of 1980, but the use of the information generated is still under development. The eventual analysis of this data will permit the use of industry standards and the evaluation of the costs and benefits of retrofitting buildings to reduce energy consumption.

**2.204** In general, the day-to-day operational management of the heating/cooling plants demonstrated due regard to economy and efficiency. However, the costing system did not properly allocate costs to the heating and cooling operations. For example, the cost of steam to drive the chillers was charged to the heating operation, not to the chilling operation. Also, the rates charged to users did not include a provision for the amortization of the costs of the plant and supply lines. A new method of allocating costs, which dealt with the allocation of costs more equitably, was reviewed for 1980 as part of a move toward revenue dependency, but it has not yet been implemented.



## **ENERGY CONSERVATION IN GOVERNMENT**



## **ENERGY CONSERVATION IN GOVERNMENT**

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## ENERGY CONSERVATION IN GOVERNMENT

### Introduction

**3.1** Energy conservation is a matter of major national concern. As a significant consumer of energy, the Government of Canada can provide leadership to all sectors of the economy. The Government's initiatives and achievements in reducing its own consumption of energy enhance its ability to encourage other users to conserve energy.

**3.2** We reviewed the policies, procedures and practices directed to the conservation of energy within the government's own operations. Our purpose was to determine whether the development and management of the government-wide program of energy conservation announced in the House of Commons in February 1975, and the measures implemented by departments, agencies and Crown corporations to reduce energy consumption, reflected due regard for economy and efficiency in the management of energy resources. In addition, we wanted to determine, on behalf of Parliament, whether information on the government's use and conservation of energy, as reported by the Department of Energy, Mines and Resources to Cabinet and the public, was sufficiently complete and reliable to allow a fair assessment of the program's performance.

**3.3** The Federal Government operates the largest fleet of vehicles in Canada and owns more building space than any other single organization. In terms of office space alone, the Crown owns at least three times as much space as the largest private sector property manager in Canada. Data reported to the Department of Energy, Mines and Resources show that direct energy consumption by departments and agencies in 1978-79 was 80.8 billion megajoules, the equivalent of 13.5 million barrels of oil or a rate of 37,000 barrels per day. (A megajoule is a metric unit of energy; its use allows the consumption of various types of energy, such as natural gas, electricity and oil, to be aggregated.) Direct energy use by departments and agencies represented a little over one per cent of total Canadian consumption and cost an estimated \$341 million. The Department of National Defence was by far the largest energy consumer with 54 per cent of the total, followed by the Department of Public Works with 15 per cent. Energy used mainly in the operation of buildings and associated facilities accounted for about 60 per cent of the energy consumed by departments and agencies in 1978-79. Transport-related fuels accounted for the remainder.

**3.4** Full data on energy used by Crown corporations were not available. The information that was available, which included consumption by Air Canada, Canadian National Railways and the heavy-water plants of Atomic Energy of Canada Limited, indicated that reporting Crown corporations consumed more than 137 billion megajoules in 1978-79, or the equivalent of a further 23 million barrels of oil (63,000 barrels per day). Excluded from this total was the energy consumed

by a large number of Crown corporations which did not report their consumption to the Department of Energy, Mines and Resources. As a conservative estimate, energy consumed by departments, agencies and Crown corporations accounts for 3-4 per cent of total Canadian consumption.

### **The In-house Energy Conservation Program**

**3.5** On 6 February 1975, the Minister of Energy, Mines and Resources announced in the House of Commons an energy conservation program for the Federal Government as the first phase of a broad national conservation program. The objectives of the In-house Energy Conservation Program (IECP) were "to eliminate energy waste and to improve the efficiency of energy utilization in the activities of all federal departments and agencies". Through the program, the Government hoped to:

- save significant amounts of energy;
- demonstrate its seriousness about energy conservation; and
- provide examples of good conservation practice for individuals, other governments, businesses and institutions.

**3.6** The program, devised and agreed upon by the Departments of Energy, Mines and Resources, Public Works and Supply and Services, and by the Treasury Board Secretariat, was designed to reduce direct and indirect energy use through a series of measures relating to:

- building operation and design;
- acquisition and use of motor vehicles;
- paper use and recycling;
- general government purchases; and
- employee services, such as cafeterias and parking.

The detailed measures described in the document tabled in the House of Commons were communicated to all federal agencies by the Department of Energy, Mines and Resources, and the co-operation of these agencies in effecting the energy conservation program was requested.

**3.7** The Department of Energy, Mines and Resources (EMR) recognized that, without comprehensive information on energy use and clear leadership and co-ordination of conservation activities, the program would receive limited support from departments and agencies. As a result, EMR asked Cabinet to reinforce the program by giving it a formal structure and goal. Treasury Board Circular letter 1976-16 of 27 May 1976 was subsequently issued to give effect to the Cabinet decision. Among other things, this circular:

- outlined the responsibilities of departments, agencies and Crown corporations for implementing energy conservation programs and establishing associated reporting systems;
- identified the Minister of Energy, Mines and Resources as being responsible for the program and for regularly reporting progress to Cabinet and the public; and
- established, as a target, that "Energy consumption is to be reduced in all federal departments, agencies and Crown corporations by 10 per cent during the 1976-77 fiscal year and be frozen at or below that level for the next ten years."

**3.8** The implication in Circular letter 1976-16, and in the detailed reporting instructions that accompanied it, was that each department, agency and Crown corporation had to reduce its energy consumption by at least 10 per cent from 1975-76. Because of differences in the scope for conservation within federal organizations, it has since been accepted that the 10 per cent target applies only to the Federal Government as a whole. The instructions on reporting procedures issued by the Department of Energy, Mines and Resources to departments, agencies and Crown corporations have been amended accordingly.

**3.9** The IECP policy was subsequently incorporated into the Treasury Board *Administrative Policy Manual* (chapter 199, section 1) in December 1978, and Circular letter 1976-16 was cancelled. The Manual further spelled out EMR's role, noting that the program was to be implemented throughout government "under the general direction" of that department, and that EMR was "responsible for the evaluation" of the program. In addition, the target was expressed in a new way:

Until the end of fiscal year 1985-86, annual energy consumption by federal departments, agencies and Crown corporations shall be held at a level that is at least 10 per cent below that of 1975-76.

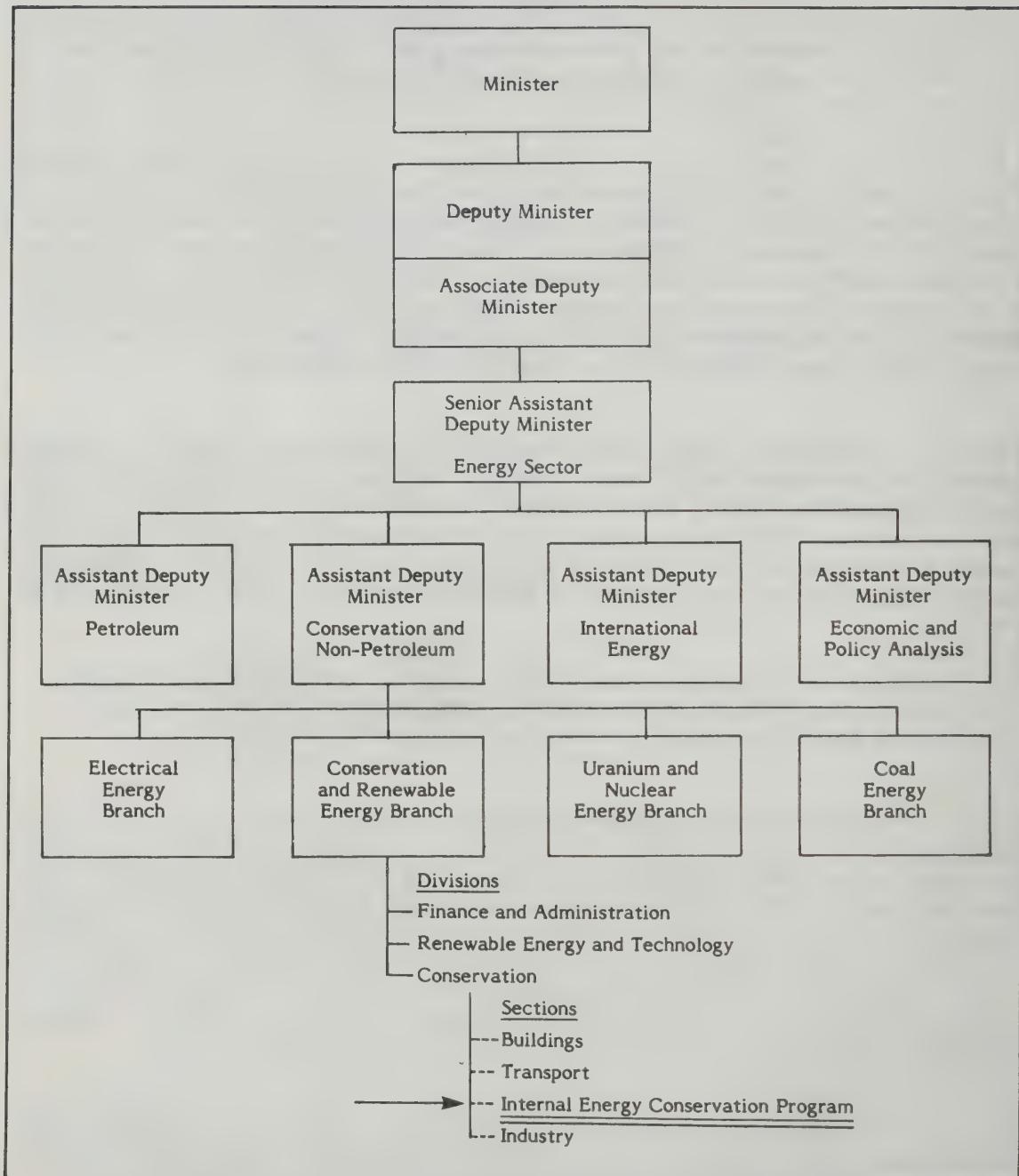
**3.10** An Accelerated Energy Conservation Program was implemented as an additional initiative in 1979-80. This one-year program called for departments and agencies to reduce their consumption of liquid petroleum products by 5 per cent relative to 1978-79. The program reflected Canada's commitment to the March 1979 decision of the International Energy Agency that member countries would reduce oil consumption by 5 per cent from 1978-79 levels. Data reported to EMR indicate that, in total, departments and agencies succeeded in reducing liquid petroleum fuel consumption by more than 9 per cent in 1979-80, compared with 1978-79.

**3.11** Within EMR, the Internal Energy Conservation Program section of the Conservation and Renewable Energy Branch has specific responsibility for the IECP. Exhibit 3.1 indicates how that section is situated in the Department.

# Energy Conservation in Government

Exhibit 3.1

## DEPARTMENT OF ENERGY, MINES AND RESOURCES PARTIAL ORGANIZATION CHART - 31 MARCH 1980



### **Audit Scope**

**3.12** Our audit of the Government's In-house Energy Conservation Program concentrated on the co-ordination of program activities and the reporting of results by EMR's Internal Energy Conservation Program section to Cabinet and the public. We also reviewed the implementation of conservation practices and procedures in the following organizations:

- Energy, Mines and Resources;
- Indian Affairs and Northern Development;
- National Defence;
- Public Works;
- Transport; and
- The Royal Canadian Mounted Police.

These six entities accounted for nearly 85 per cent of the government's reported energy consumption in 1978-79.

**3.13** In carrying out the study, we visited a number of installations in the National Capital Region and across Canada to discuss energy conservation efforts and to gain a first-hand knowledge of the application of conservation techniques and the potential for further reductions in energy demand. We employed the services of specialists in energy management to assist us in this phase of the project.

**3.14** In addition to analysing reports and correspondence dealing with the IECP, we obtained information on the United States' Federal Energy Management Program and the conservation activities of provincial governments in Canada. We have deliberately avoided comparisons between the results achieved by the IECP and the results of energy conservation programs in other jurisdictions or the private sector. Differences in base years, in the potential for making savings and in available information on energy consumption would largely invalidate such comparisons. However, we have noted that problems associated with establishing suitable base periods and conservation targets, and of gathering and reporting reliable data on energy consumption, are by no means unique to the Federal Government.

### **Summary of Observations**

**3.15** The In-house Energy Conservation Program was implemented only four years ago and under difficult circumstances. For example, most of the key departments and agencies did not initially have quantitative data on energy use to

help guide their conservation activities and few had experience in energy management. With no additional resources allocated to departments and agencies to plan and implement the program, and with fiscal restraint continuing throughout the period, there has been some reluctance to divert scarce resources from programs to conservation activities. In addition, although energy consciousness appears to be growing, there is by no means a universal appreciation of the need or the potential for conserving energy.

**3.16** In light of these constraints, significant progress has been made in implementing measures to economize on energy use. Although Statistics Canada has reported that total energy consumption in Canada increased by more than 6 per cent between 1975 and 1977, available data show that departments, agencies and Crown corporations participating in the IECP reduced their total energy demand by 2.5 per cent over an approximately comparable period between 1975-76 and 1977-78. For 1978-79 the reported data show a 4.2 per cent reduction over 1975-76. The more significant savings (8.1 per cent) were reported in the use of liquid petroleum fuels.

**3.17** Furthermore, a data base on energy use in the Federal Government has been established and the quality of the data is improving. There is a growing appreciation of the importance of energy conservation, and experience and expertise in energy management is being developed in many departments, agencies and Crown corporations.

**3.18** We believe these achievements are owing, in no small measure, to the dedication and enthusiasm of the staff of EMR's Conservation and Renewable Energy Branch, as well as the staff who have promoted, co-ordinated and implemented energy conservation measures in participating government organizations.

**3.19** Nevertheless, our study led us to conclude that improvements in the government's management of energy resources are possible and will be necessary if it is to have a program befitting a major consumer with responsibility for providing leadership to the country in energy conservation. In arriving at this conclusion, we kept in mind the Government's commitment to Parliament in February 1975 to put its own house in order and to demonstrate its seriousness in pursuing energy management policies.

**3.20** In preparing annual reports on the IECP, EMR has used 1973-74 as the base year for the Department of National Defence (DND) because that department initiated measures in 1973 to reduce energy consumption. This has led to consistent overstatement of performance against the IECP's target of a 10 per cent reduction in energy consumption from the 1975-76 level. Although a total reduction of 11.3 per cent was reported for 1978-79 compared with the base year, our analysis of available data, using a 1975-76 base for DND, indicated that the decrease for participating departments, agencies and Crown corporations from

1975-76 was 4.2 per cent. This difference arose because DND's energy use declined rapidly between 1973-74 and 1975-76, but increased slightly between 1975-76 and 1978-79. When DND is excluded, the data show a reduction in energy consumption of 12.5 per cent between 1975-76 and 1978-79.

**3.21** EMR has expressed the view that the use of 1973-74 as a base year for DND has been in order because it represented the last "normal" year of operations before a conscientious and disciplined energy conservation program was implemented by that department. We recognize the credit due to DND for organizing a conservation program and achieving significant reductions in energy consumption between 1973-74 and 1975-76. However, we want to point out that using a 1973-74 base for DND has obscured the true overall performance of the IECP in reporting achievements in relation to its target of a 10 per cent reduction from the 1975-76 level of energy consumption.

**3.22** We concluded that neither the public nor the Government has been adequately informed about the IECP's progress and problems. Because reported data have indicated that the program's target was either close to being met or had been met, the need for the Government to review and follow through on its commitment to energy conservation has not been obvious. In particular, the opportunity has not been seized to save significant amounts of energy through the implementation of a program aggressive and comprehensive enough to achieve the target set for it.

**3.23** Our study also indicated that:

- because it refers only to energy used, and not to the purposes for which it is used, a target based on absolute levels of consumption is not consistent in all circumstances with the program's objectives of reduced energy waste and increased efficiency; therefore, the 10 per cent target, while helpful as a means for launching the program, does not provide a suitable basis for managing government use of energy to 1985-86;
- base year data for 1975-76 are unreliable and do not provide an adequate benchmark for measuring the IECP's performance; and
- data on energy consumption reported to EMR have been incomplete and their reliability has been uncertain.

**3.24** EMR's Internal Energy Conservation Program section has assumed mainly a co-ordinating and advisory role with respect to the IECP. In addition to gathering data and compiling information to determine whether the Government has achieved its overall conservation target, the section has provided technical assistance to departments and promoted conservation activities with the potential for achieving substantial savings in the short term. It has not, however, provided strong central leadership in areas relating to the organization and management of conservation activities in departments, agencies and Crown corporations.

**3.25** There has been no systematic monitoring by the Treasury Board of the extent of compliance with its directives on energy conservation. However, the Comptroller General of Canada has now requested departments and agencies to include energy conservation in their long-term internal audit plans. Internal audits in departments and agencies could provide a basis for regular monitoring by the Treasury Board in the future.

**3.26** Our study of the implementation of the program in the major consuming departments showed that all have been active in efforts to curb energy use. There is evidence as well of a growing commitment to the program. Nevertheless, we found that opportunities to achieve significant savings in energy use still exist. Much more can and should be done through improved program management, better information systems and a continuing implementation of cost-effective measures to reduce energy consumption. In a press release dated 17 December 1979, which announced that the IECP's target had been met, EMR noted that "it is not unreasonable to think that the government could reduce its annual energy consumption by a further seven per cent."

**3.27** We are concerned that, without an aggressive and co-ordinated energy management program throughout government, the efforts made and savings achieved during the last few years will not be sustained and the full potential for conservation will not be realized. To this end, we have made a number of observations and recommendations with respect to those aspects where we believe improvements would help place energy conservation activities on a sounder footing for the longer term.

#### **Observations and Recommendations**

**3.28** Our study showed that serious efforts have been made to reduce energy use in government operations. We recognized the magnitude of the problem and the difficulties in mounting a significant conservation effort in the face of severe restraints on resources. For example, the government owns more than 60,000 buildings of all types across Canada, most of which were built when there was little concern for energy efficiency. Substantial savings can be made in many of these through the implementation of relatively inexpensive measures, as demonstrated in the Department of National Defence Headquarters building in Ottawa, where a "de-lamping" program resulted in the removal of about 30,000 fluorescent light tubes and the hours of lighting were substantially reduced. Electricity consumption in this building was reduced by 42 per cent between 1975-76 and 1979-80 through such simple measures. This meant a saving of approximately \$387,000 in 1979-80, compared with what the cost of electricity would have been had consumption remained at the 1975-76 level. However, the optimization of energy efficiency in buildings requires a planned approach, based on an analysis of energy used and the identification of cost-effective conservation opportunities. Ultimately, it requires the availability of skilled and experienced personnel and of funds for making improvements to buildings and their energy-related systems.

**3.29** Substantial achievements have been reported in the four years that the IECP has been in place. For example, by 1978-79 the Department of Public Works, which manages about 30 per cent of the government's total building space, had reported a 20.1 per cent reduction over 1975-76 in energy consumed per square metre in its building inventory, largely through the implementation of operating guidelines relating to lighting, heating, cooling and ventilation. Preliminary data for 1979-80 show that the savings have increased to more than 26 per cent. The Royal Canadian Mounted Police force operates over 5,000 motor vehicles and is the largest user of automotive gasoline among reporting institutions. Although the size of its fleet increased by 20 per cent between 1975-76 and 1978-79 and distance travelled increased by 4 per cent, total gasoline consumption was marginally reduced over this period through a combination of measures, including the use of smaller vehicles, greater attention to maintenance, proper tire inflation and the promotion of improved driving habits.

### **Reporting and Evaluation of Performance**

**3.30** **Reporting.** EMR is responsible for reporting to Cabinet and to the public on the progress of the IECP. Three annual reports, covering the years 1976-77 through 1978-79, have been prepared. In its third annual report on the program, EMR noted that "in FY 1978-79, the Internal Energy Conservation Program surpassed for the first time its objective of reducing the federal government's energy consumption by 10% relative to FY 1975-76."

**3.31** We found, however, that the use of 1973-74 as a base year for the Department of National Defence (DND), while other government organizations use 1975-76 or later years, has led to considerable overstatement of the results achieved by the IECP since 1975-76. The following table illustrates this situation:

Reduction in Total Direct Energy Use  
by Participating Departments, Agencies and  
Crown Corporations since 1975-76

	<u>Reported with 1973-74 as DND base</u>	<u>Calculated with 1975-76 as DND base</u>
1976-77	-7.8%	-1.3%
1977-78	-9.0%	-2.5%
1978-79	-11.3%	-4.2%

**3.32** Early in 1976, DND suggested that 1973-74 be used as its base year because energy conservation had been actively pursued in the Department since 1973. EMR's agreement with this was based on the view that it was appropriate to use the year which represented a pre-conservation level of consumption. The effect of EMR's agreement, however, was that approximately two-thirds of the IECP target could be reported as having been achieved before the program began.

Although the annual reports have indicated that DND's base year was 1973-74, the implications of this for the results reported under the IECP have not been made clear. Because 1975-76 consumption data for DND were not included, the reports did not show that DND's energy consumption decreased rapidly between 1973-74 and 1975-76 and increased slightly between 1975-76 and 1978-79. It should be noted that, excluding DND, participating departments, agencies and Crown corporations reduced their energy consumption by 12.5 per cent between 1975-76 and 1978-79.

**3.33** DND deserves credit for commencing its energy conservation effort before a government-wide program was launched. The demonstration by DND of the results that could be achieved with a senior-level commitment to energy conservation and a well organized approach provided an early model for the IECP. Nevertheless, DND was not the only department which made efforts to improve energy efficiency before 1975-76. It should be possible to highlight energy conservation activities and achievements before 1975-76 in annual reports on the IECP without distorting the program's performance in relation to the announced base year.

**3.34** If a reduction of 10 per cent from the 1975-76 consumption level and maintenance of the lower level of consumption to 1985-86, as specified in the Treasury Board's directive, was indeed a reasonable target, then the opportunity to achieve substantial savings during the period to 1978-79, through the implementation of a more aggressive program, has been missed. IECP's target was initially announced as a 10 per cent reduction in energy consumption during the first year (1976-77). However, the expectation to achieve the target within one year appears to have been unrealistic for a number of reasons, including the lack of experience in energy management, the inadequate data bases which existed at the time and the late announcement of the program. Without an indication of what would have constituted reasonable progress toward meeting the target, it is impossible to calculate precisely the potential savings which have been lost. However, an estimate of the range can be made. In terms of average 1978-79 prices, the cumulative savings during the three years 1976-77 through 1978-79 have been about \$30 million. This compares with savings of approximately \$110 million had energy consumption in each of those years been 10 per cent lower than in 1975-76.

**3.35** In reporting the performance of the In-house Energy Conservation Program the Department of Energy, Mines and Resources should clearly outline the implications of including, in the base against which performance is measured, consumption data for any entity which relate to a period earlier than the year announced as the base year for the program.

**3.36** EMR has agreed to clarify or make more explicit its base year assumptions in future reports on the performance of the IECP.

**3.37 Evaluation.** In addition to requiring EMR to report the progress of the IECP to Cabinet and the public, chapter 199 of the *Administrative Policy Manual* charges EMR with the responsibility for evaluating the IECP. The Office of the Comptroller General has identified key issues to be addressed by an evaluation of any government program, which can be summarized as follows:

- continued relevance and need for the program in terms of stated government policy;
- objectives of the program and their basis;
- adequacy and clarity of statements of objectives;
- adequacy of program design;
- intended and unintended results; and
- benefits and costs of existing and alternative delivery systems.

We found that although the published annual reports on the IECP addressed some of these issues, a thorough program evaluation covering all these elements had not been carried out by EMR.

**3.38** Because of the manner in which the IECP's performance has been reported, and because there has been no comprehensive evaluation of the program's effectiveness, neither the public nor the Government has been adequately informed about progress. In response to concerns expressed by the Administrative Policy Branch of Treasury Board Secretariat about failure to meet the target during the first two years, EMR pointed to its late announcement and to increased government activities as factors contributing to the shortfall. However, EMR also noted that there were difficulties in getting the unqualified support of all departments, agencies and Crown corporations. As distinct from the published annual reports on the IECP, a program evaluation report directed to Treasury Board would help ensure the Government is adequately informed about the program's effectiveness.

**3.39** *The Department of Energy, Mines and Resources should carry out a comprehensive evaluation of the In-house Energy Conservation Program, addressing all the issues identified by the Office of the Comptroller General as being relevant to the evaluation of government programs.*

**3.40** EMR has informed us that it agrees with this recommendation.

#### **Target and Objectives**

**3.41** The objectives of the IECP -- "to eliminate energy waste and to improve the efficiency of energy utilization..." -- were clearly stated when the

program was introduced in the House of Commons in 1975. Progress toward the achievement of these objectives is potentially measurable.

**3.42** The target of reducing energy consumption by an absolute 10 per cent from the 1975-76 level has formed the basis for EMR's assessments of the program's success. However, a target based on absolute levels of consumption may not provide the most meaningful measure of what the government has actually achieved in terms of increased energy efficiency or a reduction of waste. For example, where program activity is reduced, a lower level of energy use could coincide with decreased efficiency of its use. Similarly, increased program activity and higher consumption of energy could be consistent with improved energy efficiency.

**3.43** We were told by EMR officials that the purpose of the 10 per cent target was to provide a reasonable starting point for the program and that the target was designed to allow for the potential impact of changes in the government's accommodation inventory and program activities. Because no documentation was available, we were unable to review the information upon which the target was based and set for a 10-year period.

**3.44** We recognize the usefulness of the 10 per cent target as a means of focusing attention on conservation during the initial stages of the program. However, a target that does not specifically address the program's objectives cannot provide an adequate basis for the on-going planning, administration and evaluation of the program to 1985-86. To ensure congruence of conservation targets and objectives will require the development of at least broad indicators of activity such as accommodation occupied, kilometres driven and hours flown. EMR has recognized the difficulties associated with a conservation target expressed in absolute terms and has promoted the development of energy efficiency indicators by departments, agencies and Crown corporations.

**3.45** There has been a lack of clarity about the types of energy use which were to be covered by the target. Chapter 199 of the *Administrative Policy Manual* states that departments and agencies "shall monitor all direct and indirect consumption of energy, including particularly the consumption of energy intensive products". During the first two years of the program, the measurement of indirect energy was limited to estimates of the energy consumed in the manufacture of paper for government use and in commercial air travel by government employees. The 1978-79 annual report referred only to the direct consumption of energy. This issue is important with respect to establishing a target because savings cannot be made in all types of energy use with equal ease.

**3.46** *The Department of Energy, Mines and Resources should clarify the target of the In-house Energy Conservation Program to make it relate more directly to the program's objectives, and should specify clearly the types of energy use covered by the target.*

**3.47** EMR has agreed in principle with this recommendation and will start by developing a more appropriate target for the accommodation sector. This approach will be extended to other areas where possible and cost-justified.

#### **Information on Energy Use and Conservation**

**3.48 Base year data.** Apart from the DND base year problem already discussed, we found that the 1975-76 base year data were unreliable and inadequate as a basis for measuring the IECP's performance in reducing energy consumption.

**3.49** When the IECP was announced by Circular letter 1976-16, departments, agencies and Crown corporations were required to develop quantitative energy consumption data for the previous fiscal year to use as a base. With isolated exceptions, such data were not readily available. Some organizations have used base years later than 1975-76; others made estimates for 1975-76 and have subsequently revised them. The significance of such revisions is demonstrated by the fact that the reported reduction in consumption for 1978-79 compared with the original 1975-76 base is 8.7 per cent, versus 11.3 per cent compared with the revised 1975-76 base.

**3.50** Significant changes in program operations can erode the validity of the base year for comparison purposes. For example, additional airport facilities were constructed in Calgary after the base for the Department of Transport had been determined. In keeping with the absolute 10 per cent target, no allowance was initially made for handling such changes. However, in a 30 March 1979 memorandum to departments with respect to reporting requirements, EMR noted that:

If major changes to departmental programs or activity rates are considered to invalidate a comparison between the 1978-79 consumption and that of the base year, a "program adjustment" for purposes of comparison may be warranted.

Departments were not told how to carry out such adjustments and no indication was given as to what constitutes a "major" change. In 1978-79, 11 out of more than 60 reporting institutions included base year adjustments to reflect program changes.

**3.51** *The Department of Energy, Mines and Resources should give consideration to establishing a new base year and to:*

- *the implications that a new base year will have for determining realistic performance targets; and*
- *the need to maintain the currency and continuing validity of the base year by linking, where possible and cost-justified, energy consumption to relevant measures of program activity.*

**3.52** EMR is aware of the problems associated with the existing base year data. It has recognized the need for base year adjustment and is giving consideration to using a more recent year for which better data will be available.

**3.53 Completeness and reliability of data.** We concluded that the data on energy consumption reported to EMR have been incomplete and their reliability has been uncertain.

**3.54** We noted a number of issues that affect the completeness, consistency and reliability of the data reported by departments, agencies and Crown corporations to EMR:

- although chapter 199 of the *Administrative Policy Manual* states that the program applies to "all institutions of the federal government, including Crown corporations", many Crown corporations have not reported their consumption of energy to EMR.
- with some exceptions, energy used in leased accommodation occupied by departments and agencies was not reported;
- energy used in accommodation leased to non-government organizations was included in some cases but not in others;
- although EMR's instructions require the reporting of energy used in leased, rented and private vehicles on government business, this information was not reported in all cases;
- some departments reported the use of lubricating oils and greases, although EMR had not required them to do so;
- some departments recorded costs only and converted these to quantities by applying unit cost data, others recorded quantities directly;
- although most reported on consumption of energy, we found instances where purchases into inventory were reported;
- in one department we found that only some types of energy use were recorded consistently and that other types were being estimated; and
- most reporting institutions lacked adequate methods for verifying the accuracy and completeness of data on energy use.

**3.55** The Department of Energy, Mines and Resources, in co-operation with the Treasury Board Secretariat, and in consultation with other departments and agencies as necessary, should develop and issue guidelines designed to increase the completeness, consistency and reliability of data and reporting on energy use.

**3.56** EMR has indicated that it will make every effort to expand the involvement of Crown corporations in either the IECP or the Industrial Task Force program, as appropriate. In addition, the reporting guidelines now sent each year to all participating departments, agencies and Crown corporations will be reviewed to ensure they are as comprehensive as possible.

### **Co-ordination**

**3.57** Chapter 199 of the *Administrative Policy Manual* assigns broad program co-ordination responsibilities to EMR by indicating that federal institutions are required to "implement the program under the general direction" of that department. We found that these responsibilities had become a major focus for the work of EMR's Internal Energy Conservation Program section. For example, the section has:

- issued instructions for reports to be submitted to EMR by departments, agencies and Crown corporations, analysed and consolidated the information to prepare annual reports on the IECP, and taken follow-up action to compliment reporting organizations or to encourage them to become more active in energy conservation;
- issued checklists, handbooks, information circulars and guidelines relating to conservation possibilities and techniques;
- undertaken a major awareness campaign to launch the IECP, and subsequently promoted conservation through issuing newsletters, distributing posters and stickers, and encouraging departments and agencies to participate in International Energy Conservation Month and to develop individual awareness campaigns;
- provided technical advice, professional engineering services and on-site assistance to some of the major consuming departments and agencies;
- maintained contacts with the private sector and other governments to stay abreast of developments in conservation techniques;
- participated at departmental and agency meetings in a resource capacity;
- prepared sample terms of reference for consultants hired for energy studies; and
- hired students and co-ordinated their use to assist departments and agencies in carrying out energy studies.

**3.58** The Internal Energy Conservation Program section has concentrated its available resources on liaison with the 15 major energy users which account for some 98 per cent of reported energy consumption. Similarly, because building operations were seen as the source of substantial energy savings in the short term, the accommodation sector has been emphasized. This emphasis on accommodation has, of necessity, been partly at the expense of transportation, even though the latter accounts for nearly 40 per cent of reported energy use in government and relies almost entirely on petroleum fuels.

**3.59** Although technical assistance and support appeared to be readily available to the major energy consuming departments and agencies, we found that there was little comprehensive, documented guidance from EMR in areas relating to the organization and management of energy conservation programs. These areas include:

- roles and responsibilities of energy conservation officers;
- program planning and goal setting;
- cost-benefit analysis techniques for energy conservation measures;
- monitoring conservation activities and results;
- energy use information systems; and
- techniques for measuring efficiency of energy use.

**3.60** *The Department of Energy, Mines and Resources, in co-operation and consultation with other departments and agencies as necessary, should develop and issue comprehensive guidelines on the organization and management of energy conservation programs.*

**3.61** EMR has indicated that, because of the diverse activities of government departments, program organization and management guidelines will have to be tailored to individual organizations in many cases. They have pointed out that the implementation of the recommendation will, therefore, be dependent on the availability of staff resources.

**3.62** It is important to note that at the time of our study EMR's Internal Energy Conservation Program section had only four staff members, including the Program Co-ordinator and a clerk, for what is a vast undertaking spanning all government departments, agencies and Crown corporations, and requiring a structured and planned program of guidance, liaison and communication of information. In addition, the section was technically, rather than administratively, oriented; for example, it had no specific expertise in areas such as planning and information systems.

**3.63** We concluded that the program has lacked the strong central leadership and co-ordination necessary for a comprehensive and systematic initiative across government. As a result, efforts made by individual departments, agencies and Crown corporations have largely been in accordance with their own particular priorities, interests and capabilities.

**3.64** *The Department of Energy, Mines and Resources should review the responsibilities, authority and resources necessary to provide strong leadership and co-ordination to the In-house Energy Conservation Program.*

**3.65** EMR has informed us that this matter will be fully investigated with the aim of maximizing the effectiveness of the program.

### **Monitoring for Compliance with Treasury Board Directives**

**3.66** We found that there had been no systematic monitoring of the extent to which departments, agencies and Crown corporations have complied with the Treasury Board's directives in chapter 199 of the *Administrative Policy Manual*. For example, the extent of implementation and compliance with the "Operating Guidelines for Energy Conservation in Existing Buildings and Heating Plants" was not known to Treasury Board or EMR, although the Treasury Board directed that these be implemented in all federally-owned and occupied buildings.

**3.67** EMR maintains an awareness of conservation activities and programs in participating organizations by reviewing their annual reports and by on-going liaison with the 15 major energy users. However, EMR is not a monitoring or control agency and it has no funding powers or authority over other organizations to ensure the implementation of specific measures.

**3.68** The Comptroller General of Canada has requested departments and agencies to include energy conservation as one of the Treasury Board policies to be covered in their long-term internal audit plans. In addition, the Treasury Board Secretariat has developed audit questions on energy conservation for possible inclusion in departmental audit programs. These developments provide Treasury Board with the basis for comprehensive monitoring of adherence to its directives on energy conservation. This will significantly improve the Board's current monitoring activity, which relies primarily on reviewing the IECP annual reports as the basis for monitoring the overall progress of the program.

**3.69** *The Treasury Board should systematically monitor compliance with its directives on energy conservation.*

## **Implementation by Departments and Agencies**

**3.70** We found that all departments reviewed had designated energy conservation officers and some had appointed committees. In addition, they had issued directives, guidelines and suggestions to operating levels, implemented a number of measures to reduce energy use and used various techniques to make employees aware of the need to conserve energy. In most departments, however, it was evident that a great deal more could be done to improve the management of departmental energy conservation programs and to implement additional conservation measures. In a number of the departments we noted that the program had got off to a slow start; however, there was evidence of a growing commitment to energy conservation.

**3.71 Program management.** In most departments we noted deficiencies in the management of energy conservation programs. These deficiencies included a lack of planning, limited central direction and leadership, and inadequate monitoring, reporting and evaluation of performance. At the local level, conservation measures were often implemented in an ad hoc manner, depending on the availability of resources, rather than on an orderly and well-planned basis.

**3.72** With the exceptions of the Department of Public Works and, to some extent, the Department of Transport, the departments we reviewed did not carry out formal planning for energy conservation by establishing specific targets based on a realistic assessment of conservation possibilities, determining the activities and resources necessary for their achievement, and assigning corresponding responsibilities and authorities. In some of the departments, we found that there were elements of planning related to energy conservation in different areas of the organization, but that these were not being consolidated and co-ordinated throughout the department.

**3.73** Although in EMR's view the 10 per cent target applies to the government as a whole, departments, agencies and Crown corporations have not been directed to establish their own targets based on an analysis of conservation possibilities within their operations. Only the Department of Public Works had established its own target; most others accepted the 10 per cent target and issued implementing directives, guidelines and memoranda. In some cases the 10 per cent target had been met within the first year or two of the program and no longer provided a significant incentive. The Department of National Defence indicated that it had specifically avoided setting targets and does not believe they would serve as an incentive for its purposes.

**3.74** *Departments and agencies should assess the adequacy of their conservation targets in relation to energy conservation possibilities within their operations.*

**3.75** Energy conservation officers or committees had been appointed in all the departments we reviewed. Such appointments had frequently been made at

the regional and site levels as well as at headquarters. The Departments of Transport, Indian Affairs and Northern Development, National Defence and Public Works had appointed some staff to deal with energy conservation matters on a full-time basis. In the other departments, energy conservation was assigned to individuals as a collateral responsibility with other tasks.

**3.76** The Treasury Board directive requires the energy conservation officers or committees to monitor the consumption of energy as well as to develop and ensure the implementation of conservation measures and the involvement of all employees in the program. We found that in many cases the energy conservation role was assigned to a staff officer with no technical background or authority over the users of energy. In such cases, the responsibilities of the energy conservation officer were largely concerned with the consolidation of data for reporting purposes and the transmittal of information; the development and implementation of conservation measures were usually left to the discretion of line managers at operating levels.

**3.77** We found that the monitoring of results and activities by energy conservation officers or committees was uneven. The Departments of Public Works and National Defence carried out systematic analyses of reported data to identify and monitor changes in the efficiency of energy use. In some cases, however, information was developed and used mainly to satisfy EMR's requirements. None of the departments maintained comprehensive information on the costs associated with their energy conservation programs and, therefore, did not have the information necessary for post-evaluations of the cost-effectiveness of conservation measures.

**3.78** Most of the energy conservation officers did not regularly exchange ideas with other departments or disseminate them within their own departments. We were frequently told by staff at the installation level that they had little knowledge of the activities and progress at other similar installations. Only in isolated instances had energy conservation officers become involved in on-site reviews of conservation activities and data collection techniques. For the most part, the energy conservation officers we interviewed did not have systematic means for monitoring the extent of departmental adherence to Treasury Board directives or to internal standards and guidelines. In the Department of National Defence and the Department of Indian Affairs and Northern Development, internal reviews are expected to provide the necessary information in the future.

**3.79** *Departments and agencies should review the roles and responsibilities of their energy conservation officers or committees to ensure compliance with Treasury Board policy on energy conservation.*

**3.80** The Department of National Defence and the Department of Transport have recently completed evaluations of their conservation programs. The Department of National Defence was also conducting an internal audit of the program, and the Department of Indian Affairs and Northern Development had begun a

series of functional reviews. In the other departments, the programs had not been reviewed by internal audit or other independent groups. In this context, we have already pointed out that the Comptroller General of Canada has required that energy conservation be included in the long-term internal audit plans of departments and agencies. Regular audits and reviews should help ensure compliance with Treasury Board and internal directives and assist in the development of more reliable information on energy use and in the dissemination of conservation ideas throughout organizations.

**3.81 Building operations.** Approximately 60 per cent of the direct energy consumption reported by federal institutions in 1978-79 was related to accommodation. The quantity of energy used in building operations in 1978-79 was 7.6 per cent less than in 1975-76. This saving was achieved in spite of an increase in the Crown-owned accommodation inventory over the corresponding period.

**3.82** In existing buildings, reductions in the use of energy have been achieved mainly by implementing guidelines prepared by the Department of Public Works for the heating, lighting and operating of buildings, by increasing the energy consciousness of government employees and by making minor improvements to the buildings and their systems. The consumption level in new office buildings, designed and constructed with energy efficiency in mind, proved to be as much as 60 per cent lower, on a per unit area basis, than the national average of the Department of Public Works' total inventory in 1978-79.

**3.83** We reviewed energy conservation activities and results in a number of government-owned buildings. Where data were available, these showed reductions in energy use ranging between 15 and 50 per cent by 1979-80, compared with 1975-76. These savings had been achieved without costly modifications. For example, at the Public Service Language Centre in Ottawa, energy consumption had been reduced by 40 per cent through such measures as reduced lighting, changed water and room temperatures, improved maintenance and increased conservation awareness of occupants.

**3.84** The Department of Public Works has adopted a planned and phased approach to energy conservation in the buildings it manages. In the other departments we reviewed, only in the Department of National Defence and in the case of the airport facilities operated by the Department of Transport was there evidence that an organized approach to conservation was being developed. In many instances, measures were implemented on an ad hoc basis, with few surveys conducted to identify conservation possibilities and frequently with no post-evaluation of results achieved.

**3.85** In some of the buildings we toured we noted examples of waste. These included:

- excessive lighting levels;

- unsealed thermostats;
- blinds not available or not drawn on the south side of buildings in summer;
- solid furniture or other items blocking convector units;
- lights left on in unoccupied rooms even though switches had been installed; and
- doors left open to the outside.

**3.86** Our observations and our discussions with energy conservation officers in departments convinced us that a great deal remains to be done in terms of implementing the mandated operating guidelines, making minor improvements to buildings and their mechanical, electrical and control systems, and making employees more aware of the need for conservation and the ways in which they can make a contribution. At the same time, even where most of these measures have been implemented, additional savings can still be achieved by undertaking capital modifications with correspondingly longer payback periods.

**3.87** Commercially leased buildings present a particular problem. In addition to the Crown-owned inventory, the government occupied over three million square metres of leased space in 1978-79. At a conservative estimate of 2,000 megajoules per square metre per annum, this accommodation used at least six billion megajoules of energy. Even though this consumption resulted directly from government activity, the vast bulk of it was not reported. In addition to the reporting problem, however, the fact that the lessor can pass on energy costs to the tenant reduces the incentive for conservation. The Department of Public Works is aware of this problem and has been working to develop guidelines for incorporating energy conservation provisions into leases. These guidelines had not yet been applied at the time of our study.

**3.88** When the guidelines designed to increase the government's control over energy used in leased accommodation have been fully developed by the Department of Public Works, Treasury Board should consider making them apply to all accommodation leases entered into by the government.

**3.89 Vehicle operations.** The operation of vehicles of all kinds, including ships, aircraft and motor vehicles, accounted for 38.4 per cent of the government's reported energy use in 1978-79. Data indicated that 1.8 per cent more energy was used for transportation in 1978-79 than in 1975-76. A wide variety of conservation measures have been taken, including, for example, the use of simulators for flight training; reduced ship speeds and fewer days at sea through better planning of vessel movements; use of smaller vehicles; improved maintenance and pooling of motor vehicles; and the introduction of a 90 k.p.h. speed limit for government motor vehicles. However, the impact of these measures has not been sufficient to keep pace with increased activities.

**3.90** Fuel economies will continue to be made as existing vehicle stocks are replaced by more fuel-efficient models. In addition, some departments are experimenting with propane, liquefied petroleum gas and electric powered vehicles. However, there are some additional measures that should be investigated for possible adoption on a government-wide basis.

**3.91** For example, research has shown that better driving techniques can substantially improve a vehicle's fuel economy. We found that, although several departments had driver training programs, these programs did not emphasize energy-saving techniques in all cases. Mileage reduction programs have been used to effect energy savings in other jurisdictions. The introduction of an on-going program to reduce total distance driven by motor vehicles on government business could have a direct impact on the use of petroleum fuels by departments and agencies.

**3.92** *The Department of Energy, Mines and Resources should investigate, develop and promote practices, methods and techniques that offer potential for transportation energy conservation on a government-wide basis.*

**3.93** EMR has informed us that this matter is being fully investigated with the Transport Energy Section of its Conservation and Renewable Energy Branch.

**3.94** Many of the examples of energy waste observed during our study were directly related to the attitudes of individuals. This underlines the importance of continually promoting and monitoring conservation activities and of continuing to seek the co-operation of employees in reducing the government's consumption of energy.

## **GOVERNMENT INITIATIVE FOR IMPROVED MANAGEMENT PRACTICES**



# **GOVERNMENT INITIATIVE FOR IMPROVED MANAGEMENT PRACTICES**

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## GOVERNMENT INITIATIVE FOR IMPROVED MANAGEMENT PRACTICES

### Introduction

**4.1** The purpose of this Chapter is to report on our monitoring of a significant initiative to improve management practices in government departments and agencies. The initiative is commonly known as IMPAC, the acronym for Improvement in Management Practices and Controls.

**4.2** In September 1978, the Office of the Comptroller General launched IMPAC. It was designed to identify the current state of management practices in departments and agencies, to support the development of individual Action Plans for the correction of identified deficiencies, and to monitor the implementation of these plans. A typical Action Plan might include such projects as developing departmental planning systems, establishing strategic objectives and long-range operational plans, designing financial and operational information systems, conducting program evaluations and improving the internal audit process. Departments and agencies have responsibility for the development and implementation of the Action Plans. The Office of the Comptroller General oversees the process, ensuring that the plans respond appropriately to identified deficiencies and validating the implementation of the practices and procedures called for in the plans.

**4.3** The Public Accounts Committee has indicated that the Office of the Auditor General should monitor this significant government initiative. IMPAC was created, in part, as a response to observations and recommendations made in previous years' Reports of this Office, and the follow-up of government response is an integral part of our work. This Chapter explains IMPAC's scope and approach (paragraphs 4.16 to 4.26) and our planned approach to monitoring IMPAC over the next several years (paragraphs 4.27 to 4.31). We designed our monitoring approach to provide the House of Commons with an independent on-going review of IMPAC and would welcome any suggestions the Public Accounts Committee may have concerning our approach.

**4.4** This is the first year that we have monitored the IMPAC project. In the 1979 Report, we indicated the progress of IMPAC and our intention to begin monitoring the resulting plans. Although IMPAC has been under way since 1978, it was not until 1980 that it had reached a stage where approved plans for implementing required changes were available for our review. This year we reviewed the response of IMPAC to our previous audit concerns, the progress of the plans against milestones, and the project management controls. In future years, we shall monitor these and other aspects outlined in the Scope of Review section of this Chapter.

**4.5** In assessing the adequacy of the IMPAC Action Plans as a response to previous audit observations, we placed particular emphasis on observations made by this Office since 1975, the first year of our series of reports on government-wide studies.

**4.6** Our monitoring activities started with the review of the first six approved IMPAC Action Plans received by our Office. These were developed by:

- Canada Employment and Immigration Commission;
- Department of Agriculture;
- Department of Energy, Mines and Resources;
- Department of National Health and Welfare;
- Department of Supply and Services - Services Administration; and
- Royal Canadian Mounted Police.

These six entities represent approximately 46 per cent of the planned government expenditures for 1980-81, excluding public debt charges. Based on estimates in the Action Plans, the cost of implementing these plans and their associated projects, from September 1978 onward, will approximate \$26 million, including a commitment of about 700 person-years. Only part of these resources will be additional to the organizations' on-going budget levels.

### **Summary of Observations**

**4.7** IMPAC has encouraged departments and agencies to focus on improving management practices. It has achieved greater co-ordination by integrating, in a single plan, independent departmental changes with IMPAC-related improvements. The Office of the Comptroller General has requested departments to cost IMPAC-related activity and report on the savings and benefits achieved. Action Plans represent commitments by senior managers to implement improvements within specific periods of time. Also, by monitoring these plans, the Office of the Comptroller General has added independent review to the process of management improvement.

**4.8** It should be recognized that, in some instances, departments and agencies were already in the process of implementing major improvements when IMPAC started. Our findings indicated that IMPAC provided additional discipline and impetus to existing processes and frequently extended the scope of management improvements.

**4.9** The progress of IMPAC has been slower than initially expected. This is due, in part, to the uniqueness of IMPAC and the extensive detail and broad

coverage developed for some of the Action Plans. Also, on the initiative of the departments, Action Plans have frequently been extended to incorporate topics other than those recommended by the Office of the Comptroller General. Moreover, work in three organizations had to be postponed because of lack of adequate resources in the Office of the Comptroller General to oversee IMPAC.

**4.10** The Action Plans extend over a lengthy period of time. The latest completion date indicated on the first six Action Plans is March 1983, but some plans also show tasks with no completion dates. From this, we concluded that several of the plans will continue past the March 1983 completion date. The Comptroller General has confirmed that the implementation of Action Plans can take from two to five years. We found that several of the organizations with approved plans were still in the preliminary phases of implementing significant improvements.

**4.11** The scope of IMPAC has not been clearly defined. First, we identified many boards, commissions and agencies which were not participating in IMPAC. Second, we noted that administrative or financial issues common to two organizations were included in one plan but excluded from the other. The scope issue is significant because it defines the boundaries within which the Office of the Comptroller General, through the Action Plans, can initiate and monitor management improvements.

**4.12** We found that the Action Plans addressed most of the deficiencies previously reported by this Office. Where deficiencies were not addressed within approved Action Plans, departmental management was considering the problems. The need for improved payroll costs management in departments continues to be of concern to this Office; we found that department-wide manpower planning, training and development, and human resource information systems were generally not explicitly addressed in the Action Plans.

**4.13** We examined whether departments were adhering to their own implementation schedules in the plans and found that over 80 per cent of the major projects in the six plans were on schedule. We believe this rate of progress against the planned milestones can be considered acceptable, given the nature and uniqueness of IMPAC. Two functions consistently reporting slippage against planned milestones were operational information systems and the development and assessment of organizational goals and service strategies. We noted that the activities of the Energy Sector of the Department of Energy, Mines and Resources were significantly behind schedule.

**4.14** We reviewed the management control of the IMPAC project and the procedures used by the Office of the Comptroller General and the departments to manage the implementation of Action Plans. In our opinion, they were adequate at the time of our review.

**4.15** We compared the management improvement projects being undertaken within the six Action Plans with recommendations made by the Public Accounts Committee during the past five years. We found that, except for matters requiring legislative or policy changes or designated for study by the Treasury Board, most of the recommendations were addressed under the broad, general framework of the IMPAC Action Plans.

### **IMPAC's Scope and Approach**

**4.16** The Management Practices Branch of the Office of the Comptroller General oversees the IMPAC process. The Branch's primary responsibilities are to assist departments and agencies in the development and implementation of IMPAC Action Plans, monitor the departments' implementation activities and validate the quality of the Action Plan results.

**4.17** The general approach of IMPAC begins with an assessment by the Office of the Comptroller General of the management practices in selected departments and agencies and concludes with the implementation of an Action Plan designed to correct identified deficiencies. The Office of the Comptroller General established three major stages in the process: the preparation of a Survey Report by the Office of the Comptroller General, the development of an Action Plan by the department, and the implementation of the Action Plan in the department.

**4.18** Stage I, preparing a Survey Report, is an assessment by personnel from the Office of the Comptroller General of the current state of important management practices and controls operating in a department. Although a standard questionnaire is used and examinations are conducted, the IMPAC approach is not an audit. A Survey Report is prepared by the Office of the Comptroller General as a result of this activity. The report is agreed upon by the Comptroller General and the deputy minister of the department concerned.

**4.19** Stage II, developing an Action Plan to improve management practices and controls based on the Survey Report, is carried out by the department, in co-operation with the Office of the Comptroller General. The Action Plan is jointly agreed upon by the Comptroller General and the deputy minister. A copy of the approved Action Plan is forwarded to the Auditor General by the deputy minister of the department.

**4.20** When agreement is reached between the department and the Office of the Comptroller General on the Action Plan, the department begins Stage III, implementing the plan. The Office of the Comptroller General assists the implementation activity by providing a review by chief liaison officers and making additional resources available, where required. In the fiscal year 1980-81 these resources, provided through the Implementation Assistance Program, will amount to an estimated \$7.3 million and 140 person-years.

**4.21** At 31 August 1980, 29 government organizations were involved in IMPAC. The progress to that date was as follows:

STAGE I	Organizations under assessment with no Survey Report	1
STAGE II	Organizations with approved Survey Reports and developing Action Plans	21
STAGE III	Organizations with approved Action Plans and implementing the plans	<u>7</u>
Total		<u><u>29</u></u>

**4.22** Of the plans in Stage III, the Office of the Comptroller General has given only partial approval to the Canada Employment and Immigration Commission Action Plan until agreement can be reached on a section dealing with the major problem of over and under payments of unemployment insurance benefits.

**4.23** Exhibit 4.1 sets out the progress achieved by the 29 government entities participating in IMPAC. The exhibit indicates the time required to complete the Survey Report, to prepare a draft Action Plan and to gain the concurrence of the Office of the Comptroller General on the adequacy of the plan. The average time taken, based on the approved Action Plans, was approximately 16 months, as follows:

- six months to undertake the survey, prepare and agree upon the Survey Report;
- four months to prepare a first draft Action Plan; and
- six months for revision and discussion between the Office of the Comptroller General and the department, to finalize the Action Plan.

At 31 August 1980, the remaining 22 government entities were in the process of developing Action Plans. As shown in Exhibit 4.1, it is taking longer for these entities to complete the same process.

**4.24** Although the Office of the Comptroller General is actively working with 29 government organizations, it has not extended IMPAC to many boards, commissions, agencies and Crown corporations that also use public funds. Consequently, an IMPAC plan for a department excludes most of the related boards and commissions. For example, the Department of Agriculture IMPAC Action Plan excludes the Agricultural Products Board, Agricultural Stabilization Board, Canadian Dairy Commission, Canadian Grain Commission, Canadian Livestock Feed Board, Farm Credit Corporation and the National Farm Products Marketing Council.

**GOVERNMENT INITIATIVE FOR IMPROVED MANAGEMENT PRACTICES**

**STATUS OF ACTION PLANS - 31 AUGUST 1980**

DEPARTMENTS AND AGENCIES	1978				1979				1980				Time in Process (Months)	Status of Action Plans				
	September	October	November	December	January	February	March	April	May	June	July	August	September	October	November	December		
1. National Health and Welfare																	15	
2. RCMP																	15	
3. Energy Mines and Resources																	16	Action Plans Approved
4. DSS-Services																	16	
5. Employment and Immigration																	17	
6. Agriculture																	17	
7. Public Works																	20	
8. DSS-Supply																	24	
9. Customs and Excise																	22	
10. Veterans Affairs																	23	Draft Action Plans in Process of Approval
11. CIDA																	23	
12. Industry Trade and Commerce																	22	
13. Post Office																	24	
14. Environment																	22	
15. National Defence																	23	
16. DREE																	23	
17. Correctional Service																	21	
18. National Revenue - Taxation																	22	
19. Indian Aff. and Northern Dev.																	23	
20. Transport																	23	
21. Secretary of State																	18	
22. Statistics Canada																	13	Draft Action Plans Under Development
23. Canadian Transport Comm.																	13	
24. National Museums																	13	
25. External Affairs																	11	
26. Consumer and Corporate Aff.																	16	
27. Labour																	12	
28. Justice																	12	
29. Fisheries and Oceans																	10	
																	7	In Survey Stage

**IMPAC Action Plan Development and Approval Process**

Survey      Action Plan Development      Action Plan Approval

Process incomplete:  
number of months in process to 31 August 1980

⇒ Process ongoing

**4.25** Our Office has observed deficiencies in boards, commissions and other agencies that are outside the purview of the Comptroller General's IMPAC initiative.

**4.26** Partly as a result of IMPAC, the Office of the Comptroller General has undertaken to prepare guidelines on program evaluation which, at the time of our review, were in the draft stage and were to be issued in late 1980. Also, a revised policy on internal audit was being prepared to expand upon the *Standards for Internal Financial Audit* issued in 1978.

### **Scope of Review**

**4.27** Our planned approach to monitoring IMPAC is designed to provide to the House of Commons an independent on-going review of IMPAC Action Plans. This review has three major components:

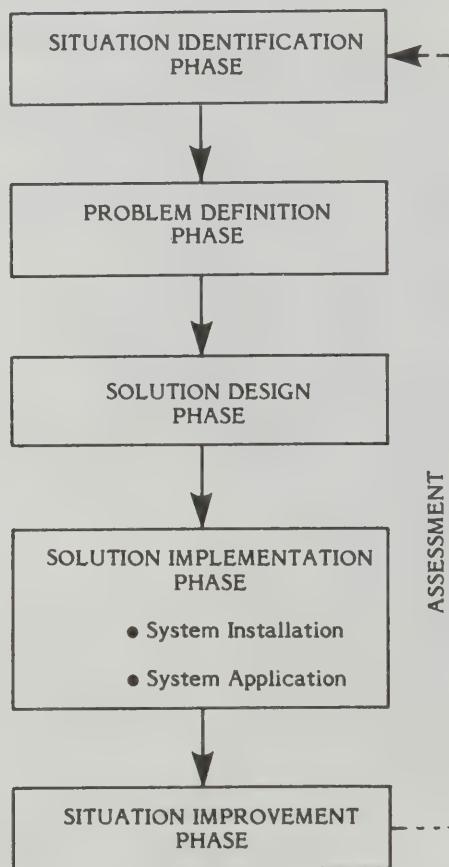
- a review of the framework and approach for the implementation of management changes;
- a review of the contents of the Action Plans; and
- a review of the process for implementing the Action Plans.

### **Framework for Operational Improvement**

**4.28** The first component is a review of the framework and approach used to implement improved operations through the Action Plans. There are five generally-recognized phases of operational improvement, as shown in Exhibit 4.2. An important consideration is whether each organization addresses each phase in a logical and adequate fashion.

**4.29** There are key aspects to each phase. The *situation identification phase* is the point at which management identifies that a particular situation requires improvement. In the case of IMPAC, it corresponds to the agreement on the IMPAC Survey Report. The *problem definition phase* defines the cause of the problem or deficiency and is a critical step because incorrect problem definition can lead to erroneous assumptions and actions, and, despite much work, the situation may not improve. The *solution design phase* follows problem definition and may include, for example, designing information systems, developing measurement criteria, or developing planning processes. At this phase, analysis should be undertaken to justify expenditures and to select among various alternatives for correcting the defined problem. The *solution implementation phase* usually has two steps: first, the installation of the solution or system; second, the use of the new technique or system by managers. Since the new system or process is a tool to be used to improve operations, the extent to which it is accepted and used by management will indicate its usefulness. The *situation*

**GOVERNMENT INITIATIVE FOR IMPROVED MANAGEMENT PRACTICES**  
**A GENERAL FRAMEWORK FOR OPERATIONAL IMPROVEMENT**



improvement phase is the result of the previous phases; in this phase, departmental management should have appropriate procedures to determine whether the situation, previously identified as deficient, is now adequate.

### **Contents of Action Plans**

**4.30** This review includes four areas:

- *Response to audit observations.* Where reported deficiencies exist, we anticipate that corrective action is included in the approved Action Plans. Therefore, the first aspect of our review is to determine if outstanding issues of concern to this Office are incorporated in the Action Plans.
- *Attention to underlying causes.* One of our major concerns is that the cause of a problem identified in our audits is dealt with -- not just the symptoms. Therefore, our review of the Action Plans includes verifying that identified underlying causes of problems are being addressed.
- *Priorities in the plans.* We review the rationale for the priorities assigned to projects, with a particular emphasis on the process for setting them.
- *Timing of tasks.* All activities should have timeframes assigned to them. Part of our review involves examining the management process for establishing the timetable for implementing improvements.

### **Implementation Process**

**4.31** The third component of our monitoring involves a review of the process for implementing the plans. Four aspects are reviewed:

- *Interim requirements.* Many of the plans will provide for the design, development and implementation of new systems and processes over a number of years. Certain issues may, however, warrant more immediate attention. Interim action should be an additional consideration in management's review of the solution to a defined problem. One facet of our monitoring is to determine whether appropriate consideration is given to interim action or procedures to react immediately to a problem.
- *Progress against milestones.* Our monitoring of progress involves verifying that the departments are on schedule against their own timetables.
- *Substance of achievements.* We monitor the quality of achievements by conducting substantive audit tests against selected completed tasks or projects of a departmental Action Plan.

- *Project management of IMPAC.* The quality of the project management of IMPAC is an integral part of the success of the initiative. We monitor the project management from two perspectives; first by reviewing the IMPAC activities of the Office of the Comptroller General and second by examining the project management process in the departments.

### **Current Year Review**

**4.32** This year, we reviewed three of the previously identified areas that, in our view, were appropriate and feasible to assess, given the early stage of IMPAC:

- the IMPAC response to previous audit observations and recommendations of this Office;
- the progress of the projects against the milestones in the Action Plans; and
- the adequacy of the project management of the IMPAC Action Plans.

### **IMPAC Response to Previous Audit Observations**

**4.33 Scope of review.** We examined whether the six Action Plans responded to our previous audit observations and recommendations. Because this aspect of the Action Plans is fundamental to our interest in IMPAC, it was selected for review in this first year of our monitoring activities.

**4.34** For each of the six entities, we compiled our observations and recommendations made to the departments over the past five years. We compared our concerns still outstanding to each project listed in each Action Plan. Frequently, these projects were very broad in scope, and our review necessitated interviews and discussions with departmental management for clarification.

**4.35** It should be recognized that some of the activities included in a particular department's Action Plan transcend the areas covered by previous audits of this Office. IMPAC covers a broad range of management practices and controls and, of the six Action Plans reviewed, only three organizations had been the subject of comprehensive audits by this Office. The three organizations and their years of comprehensive audits are:

- Canada Employment and Immigration Commission (1978);
- Department of National Health and Welfare (1978); and
- Department of Supply and Services - Services Administration (1979).

**4.36 Observations.** The six Action Plans that we reviewed covered most of the outstanding concerns from previous audit work conducted by this Office in the organizations. However, it must be noted that coverage in the Action Plan does not represent assurance that the deficiency will be corrected, and further monitoring will be required after implementation.

**4.37** Our review of the six Action Plans indicated that the approach taken by IMPAC was sufficiently comprehensive to address major department-wide issues. The Action Plans sought to correct deficiencies reported by our Office that affected the overall management practices of a department or agency. However, observations and recommendations of this Office that affected only a particular branch or aspect of a department's operations were frequently not included in the plans. At the same time, our review indicated that, regardless of the coverage of the IMPAC Action Plans, managers in these six organizations were addressing problems identified by our audit findings.

**4.38** In our audits of unemployment insurance claims, we have regularly found over and under payments of benefits that were not detected by the Canada Employment and Immigration Commission. The Commission had been actively working to resolve the situation and was preparing a workplan for developing a solution at the time of our IMPAC review. The workplan was to be incorporated as part of the Commission's IMPAC Action Plan, containing corrective actions both under way and under consideration. The variety and complexity of underlying causes for the errors made the development of practical solutions a time-consuming task. Consequently, with the concurrence of the Office of the Comptroller General, the IMPAC Action Plan for the Commission had been given preliminary approval without the workplan on the benefit and over payment system on the understanding that it would be included before final approval was given to the Action Plan. In our opinion, this approach was reasonable, subject to the workplan being incorporated into the Action Plan at an early date.

**4.39** In the 1979 Report, we reported on our Payroll Costs Management study. We concluded that improvements were needed in the areas of manpower planning, training and development, and human resource information systems. We recommended that both departments and the Treasury Board take steps to achieve improvements in these three areas. Many departmental Action Plans provide for additional training or manpower acquisition in response to specific needs; for example, most of the plans explicitly provide for some aspects of manpower planning in the internal audit function. However, our review of the six plans indicated that the three areas were not explicitly addressed on an organization-wide basis. In our opinion, payroll costs management issues are an integral part of management practices and controls and should be incorporated into IMPAC.

### **Progress Against Milestones**

**4.40 Scope of review.** We reviewed the progress of the projects against the milestones in the Action Plans as of 1 July 1980. The July date was selected in

order to present the House of Commons with as up-to-date information as possible.

**4.41 Observations.** The six Action Plans encompassed a total of 63 major projects, of which only one was not yet scheduled to start. Of the 62 projects, 50 were on schedule. On a department by department basis, no organization had achieved 100 per cent on-schedule status.

**4.42** Our review indicated that most of the projects in the Action Plans had progressed only to the problem definition and solution design phases. Thus, very few of the plans had been implemented to the point where solutions for improved management practices had been applied.

**4.43** One function that showed slippage in several of the plans was the development and assessment of organizational goals and service strategies. A second area in which slippage frequently occurred was the integration of financial and operational performance information in the development of management information systems.

**4.44** Our discussions with IMPAC project managers revealed two main reasons for delay. The first was a shortage of personnel with adequate backgrounds to conduct the tasks. Generally, project managers cited government hiring restraints, the time required to have positions classified and staffed, and the difficulty in finding suitably trained personnel. The second reason for slippage was under-estimation of the size, complexity and difficulty of the tasks. Departments encountered difficulties in establishing performance measures and linking operational plans to budgets. Also, many of the tasks required considerable time from senior managers who had other on-going responsibilities.

**4.45** Our review of the progress of implementation at the Department of Energy, Mines and Resources indicated that several key activities related to the Energy Sector were not on schedule at the time of our review. We found that the Energy Sector had limited involvement in the development stage of the Department's workplan and, further, that it was not represented on the Department's IMPAC Steering Committee. The Sector is an important part of the Department; it has 676 of the estimated 3,762 person-years in the Department and responsibility for approximately \$2.9 billion of the Department's \$3.1 billion estimated expenditures in the fiscal year 1980-81. A significant portion (\$2.6 billion) of this expenditure is related to the Oil Import Compensation Program.

## **Project Management of IMPAC**

**4.46 Scope of review.** Sound project management is necessary if IMPAC is to succeed because the Action Plans are frequently innovative, complex and difficult. Implementation of Action Plans is managed by two government groups.

First, the Office of the Comptroller General monitors the plans on a regular basis. Second, the departments have established project teams that are responsible for the control and execution of the plans. Our review encompassed both management groups.

**4.47      Observations.** Our examination of the systems and procedures used by the Office of the Comptroller General to monitor the plans showed that relatively informal project management processes existed. These were adequate when only a few plans were approved and being monitored. In our opinion, however, they will need strengthening as the number of departments and agencies with plans increases and the departments move into more complex phases of these plans. We were advised that more formal systems were being developed in response to both the increasing number of plans and the requirements of monitoring the more difficult phases of the approved Action Plans.

**4.48**      We found that the Management Practices Branch of the Office of the Comptroller General, which is directly responsible for the IMPAC project, had been understaffed throughout most of the time period under review. Consequently, we found instances where validation of departments' projects had been delayed or deferred. We were advised, however, that by October 1980, the Branch would be staffed to its approved complement.

**4.49**      The management information systems used by the six organizations for internal monitoring of Action Plans were reasonable for the size of the plans and the organizations. As part of their Implementation Assistance agreements with the Office of the Comptroller General, departments are required to report regularly on their progress to date. We found that the departments and agencies were complying with these reporting requirements. Considerable senior executive time was committed to implementing the Action Plans and regular reviews were held by management in the departments and agencies. Responsibility for the implementation of Action Plans is assigned to IMPAC Co-ordinators in the organizations participating in the process. In the 29 organizations, they were senior executives and were given appropriate authority and responsibility to implement the Action Plans effectively. Every IMPAC Co-ordinator in the six organizations reviewed reported to the deputy head of the respective organization. Our discussions within the six organizations revealed a high level of involvement in the project by line managers. Thus, the Action Plan activities appeared to be adequately integrated with the on-going operations of organizations.

**4.50**      The six Action Plans reviewed varied in content and format, which was to be expected because of differences in the organizations' operations; however, our monitoring activities indicated considerable differences in certain fundamental aspects of the plans. These included, for example, definition of a project, how to cost the plan, identification of plan benefits, and stipulation of completion dates. Although many of these aspects were in the plans, there was sufficient variation to conclude that better guidelines on plan preparation should have been issued to the organizations. Subsequently, we learned that the Office of the

Comptroller General had prepared a set of draft guidelines which would be finalized and issued by the end of the fiscal year 1980-81.

**4.51** We found limited evidence of provision for post-completion reviews. Such evaluations can be useful to learn from past experience, to plan for future activities and projects, and to determine the extent of improvement from the original situation. We believe that the guidelines that are to be used by the Office of the Comptroller General will encourage such reviews.

### **Summary**

**4.52** Although IMPAC is still in its early stages, we believe it has already had beneficial effects. The Comptroller General expects improvements in management practices and controls in government will take several years. During this time, we shall continue to monitor IMPAC and report on its progress to the House of Commons.

## **COMPREHENSIVE AUDITS**



## COMPREHENSIVE AUDITS

### Introduction

In 1977, the Auditor General Act broadened the audit of departments and agencies to include "value for money" as a criterion in the examination of government spending. In general, the audit report calls to the attention of the House anything the Auditor General considers of significance to Parliament. The value-for-money provisions involve examination of the adequacy of management and financial control systems to ensure that public funds are spent economically and efficiently, and that there are appropriate procedures for measuring and reporting the effectiveness of programs. As a process to assure Parliament that the information required for accountability of the Government to Parliament is appropriately disclosed and fairly presented, the audit extends the regular legislative audit of financial controls to suggest ways to improve the quality of the information in the Estimates and Public Accounts. Comprehensive auditing, the methodology developed by this Office to carry out the Auditor General's expanded mandate, was endorsed by the Public Accounts Committee of the House of Commons in March 1979. The six chapters following provide the results of comprehensive audits of five government departments and the administrative operations of the House of Commons.

This Introduction provides an outline of the scope and basic methodology of comprehensive auditing. A more detailed description of comprehensive auditing is set out in Chapters 2 through 7 of the 1979 Report.

Based on an understanding of an organization's objectives, its environment, and the management and operating structures and controls within it, the audit team identifies the functions or processes important to the achievement of economy, efficiency and program effectiveness. The team then assesses the quality of the planning processes and management controls used to achieve economy, efficiency and effectiveness, and the quality of accountability reporting. In making this assessment, we apply various criteria falling within broad areas described in Chapter 2 of the 1979 Report:

- *Financial Controls* - an evaluation of the controls over revenues, expenditures, assets and liabilities, including the organization of the financial function and its place in the general management structure; the qualifications and suitability of financial personnel to the needs of the organization; the appropriateness of the accounting systems and procedures; and the appropriateness and adequacy of budgeting and financial reporting systems.
- *Reporting to Parliament* - an evaluation of the nature, content, adequacy, reliability and timeliness of financial and related non-financial information presented in reports to Parliament. The principal formal reports to Parliament include the Estimates, the Public Accounts and the Auditor General's annual Report.

- *Attest and Authority* - the expression of an opinion on financial statements and the verification of parliamentary and governmental authority for expenditures.
- *Management Controls* - an evaluation of the system of management information and controls, including the internal audit/evaluation/review functions, so as to ensure there is due regard to economy and efficiency and that appropriate procedures to evaluate and report on program effectiveness, where such are feasible, are in place and operating satisfactorily -- in short, value-for-money auditing.
- *EDP Controls* - an evaluation of controls over financial and other information processed by computers and of management controls over the use of computer-related resources.

In each case, the general audit criterion is what can reasonably be expected of public service management in terms of generally accepted management and reporting practices or standards. To the extent feasible, the audit report suggests possible underlying reasons for any weaknesses found in controls and makes constructive recommendations for improvement. The objective is to identify opportunities for better management of resources. Reporting on comprehensive audits of departments and agencies on a cyclical basis over a number of years gives management the opportunity to resolve any major problems that the audits reveal.

In our audit work in departments and agencies, we try to identify specific types of information, often unique to each entity, that we think should be included in the Estimates. This information would help Members of Parliament gain a better understanding of requests for resources, allocations of resources, and accomplishments from the use of resources. In the departmental audit chapters that follow, we identify and explain specific kinds of information desirable for the Estimates of the Department of National Revenue - Taxation, Veterans Affairs and the Department of Indian Affairs and Northern Development. This type of information will be developed further by departments and the Office of the Comptroller General, as part of a major study being conducted by that Office to revise the form and content of the Estimates and Public Accounts. The chapters on the Department of Supply and Services - Supply Administration and the Department of National Revenue - Customs and Excise do not include our suggestions for improvement because the Estimates of these departments are included as pilot projects in the Comptroller General's study.

**HOUSE OF COMMONS**



# HOUSE OF COMMONS

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## HOUSE OF COMMONS

### Introduction

**5.1** On 4 April 1979, the Speaker of the House of Commons, with the support of the Standing Committee on Management and Members' Services, asked this Office to undertake a comprehensive audit of the administrative systems and organization of the House. The audit was to be broad in scope, including considerations of economy, efficiency and operational effectiveness and designed to take into account the unique aspects of House administration. It was understood that we would not review the procedural aspects of the House except to the extent required to obtain an understanding of their relationship to administrative practices.

**5.2** On 31 October 1979, we provided the Speaker with an interim report summarizing our preliminary findings and recommendations. The report, tabled in the House on 1 November 1979, described significant deficiencies in administrative organizational arrangements, in financial management and control, and in personnel administration in the House of Commons. Subsequently, in April 1980, we provided the Speaker with an audit report containing the findings, analyses and recommendations arising from our comprehensive audit as well as those arising from a separate study of senior-level classification and compensation requested by the former Speaker. This Chapter summarizes our observations and recommendations pertaining to each of the major areas examined.

**5.3** As described in the 1980-81 Estimates, the objectives of the House of Commons relating to administration are to:

- assist Members in their consideration (in both official languages) of legislation and of the spending estimates of departments and agencies; and
- administer the affairs of the House.

**5.4** Since the organization and administrative practices of the House were last examined, in 1964, staff has increased threefold and expenditures tenfold. These increases reflect growth in the demand for and complexity of support services to meet the objectives of the House. At the present time, more than 3,000 people and a budget of more than \$96 million support the activities of the House.

**5.5** We wish to thank the Speaker, officers and employees of the House of Commons for their assistance and co-operation during our audit.

### **Audit Scope**

**5.6** Our audit concentrated on the organization and administrative systems of the House of Commons. We conducted extensive interviews with officials and staff of the House and reviewed systems, procedures, documents and correspondence.

**5.7** We did not have an opportunity to interview Members to obtain their views and comments because of the intervention of two elections during our audit. To avoid unreasonable delay, and because our findings related primarily to administrative matters, we provided the Speaker with a draft of our detailed findings without Members' observations. Subsequently, the members of the Management and Members' Services Committee, as representatives of the Members at large, had the opportunity to discuss and comment on the draft.

### **Summary of Audit Observations**

**5.8** The House of Commons is the supreme legislative institution of Canada, with responsibility for legislation which has far-reaching effects on the lives of all Canadians. As such, it is reasonable to expect that its general and financial administration would be a model of excellence, reflecting the highest standards of probity and prudence and demonstrating due regard for economy, efficiency and effectiveness in the control and administration of public funds. This is far from being the case.

**5.9** The services provided to Members are of high quality, as are the services provided to the House. Our comprehensive audit demonstrated, however, that the quality of general and financial administration was significantly below a minimum acceptable standard. We believe that there is cause for concern about the effects on future House administration if the fundamental weaknesses disclosed by our audit are not addressed fully and with a sense of urgency.

**5.10** Our audit was not designed to detect possible defalcations or similar irregularities that may have occurred. However, the lack of adequate financial controls and of documented procedures in virtually all areas of administration greatly increases the risk of inconsistent administrative practices, unauthorized use of inventories and equipment, overcharging by suppliers and other irregular or fraudulent practices. The following summary indicates the major deficiencies identified during our audit:

- the lack of a clear separation between the two main streams of activity in the House -- procedural duties and administrative responsibilities -- resulting in the absence of a clearly defined administrative mandate, organizational relationships and delegation of authority;

- inadequate co-ordination and management of the administrative function, resulting in a weak administrative organization with unclear responsibilities and little authority;
- the lack of strong, effective comptrollership and personnel management functions, resulting in weak financial and personnel controls, inequitable employment practices and poor management of employee relations;
- the absence of documented administrative policies and procedures, causing inconsistent administrative and financial practices;
- the lack of adequate financial management and control systems, creating serious deficiencies in the areas of budgeting, variance analysis, and level of service/related cost analyses and in internal controls over the approval and processing of expenditures;
- the lack of effective management reporting systems, including deficiencies in performance information and comparisons to operating budgets and performance standards; and
- the lack of well defined and documented personnel policies, responsibilities and practices, creating anomalies in job classification and compensation at all levels within the administrative function of the House of Commons.

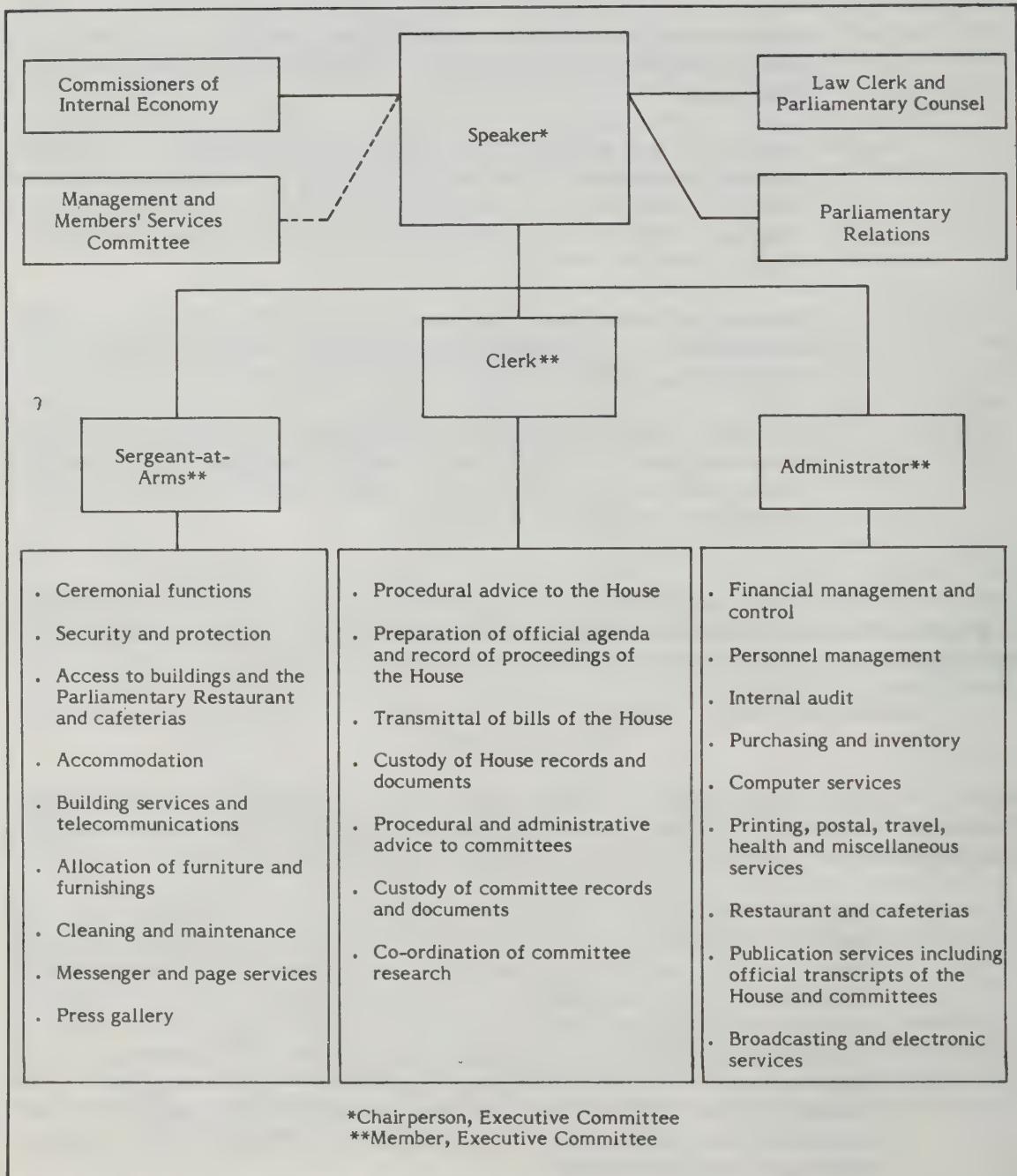
**5.11** These findings indicate the urgent need for significant improvements in organization and administration, in financial and personnel management, and in the classification and compensation plans for House officials.

#### **An Action Plan**

**5.12** Given the urgency of the situation, the Speaker of the House of Commons indicated a desire to act promptly to improve House administration. We recommended the following five-point action plan to the Speaker:

1. Provide members of the Standing Committee on Management and Members' Services, the Commissioners of Internal Economy, and the House Leaders with the opportunity to express their views on our findings and recommendations. To be fully effective, the organizational arrangements shown in the proposed functional chart of organization (Exhibit 5.1) will need their support. Ultimately, certain proposals would require changes in governing legislation and in the Standing Orders to make certain that the mandates, authorities and responsibilities of the Clerk, the Sergeant-at-Arms and the Administrator are clearly defined.

**HOUSE OF COMMONS**  
**PROPOSED FUNCTIONAL CHART OF ORGANIZATION**



2. Appoint an Administrator with deputy head status, reporting directly to the Speaker, to provide leadership and direction for administrative functions. Procedural and administrative responsibilities would, therefore, be clearly separated, as shown in the proposed organization chart. The Clerk would remain the senior permanent deputy head, advising and supporting the Speaker and the House on procedural matters. The Sergeant-at-Arms would be responsible for ceremonial duties, as well as for control of security and access to buildings and a variety of related building services. The Administrator would direct and co-ordinate the administrative affairs and support services of the House. The Clerk, the Sergeant-at-Arms and the Administrator, with the Speaker as Chairperson, would constitute an Executive Committee for the general, financial and personnel administration of the House.
3. Appoint a Comptroller and a Director General, Human Resources, each reporting directly to the Administrator. The Comptroller would develop and direct all aspects of financial administration; the Director General, Human Resources, would develop and direct all aspects of personnel administration.
4. Develop and implement the policies and procedures necessary to provide effective financial, personnel and operating practices in the House. Many of the required improvements are detailed in our audit report. Leadership in this task should be provided by the Administrator.
5. Implement an equitable and consistent classification and compensation plan for senior-level employees of the House.

**5.13** The Speaker of the House of Commons has indicated her general support for the recommendations arising from our comprehensive audit. Since our audit, the House has made progress in implementing the action plan, and provided the leadership necessary for administrative change, with the appointment of an Administrator, a Comptroller and a Director General, Human Resources.

**5.14** The following sections of the Chapter contain the specific findings and recommendations resulting from our audit.

### **Organization**

**5.15** Traditionally, the Speaker has directed the two streams of activity in the House -- legislative procedure and administration. The Speaker presides at Chamber sessions, enforces the observance of House rules, maintains the rights and privileges of the House and directs the management of its internal affairs. The Speaker is assisted by a Deputy Speaker, who acts as Chairman of the Committee of the Whole House and, when required, replaces the Speaker in the Chair. The Speaker is also supported by the following officers appointed by Governor in Council: the Clerk, the Clerk Assistant, the Law Clerk and Parliamentary Counsel, and the Sergeant-at-Arms.

**5.16** The Law Clerk and Parliamentary Counsel provides advice on legal matters to the House and to individual Members, and assists Members in drafting legislation.

**5.17** When we began our audit, the Clerk was responsible for the procedural aspects of the House and for its administration. In executing these responsibilities the Clerk was supported by:

- five Table Officers who assisted the Clerk in advising the Speaker and executing the procedural work of the House;
- the Director of Administration and Personnel who directed the administrative, personnel and financial functions;
- the Director of Legislative Services who directed the provision of procedural and administrative support to committees, the production and distribution of official publications of the House and committees, and the broadcasting of proceedings in the House; and
- the Sergeant-at-Arms who, as Director of Building Services, was responsible for protective services, accommodation, furniture procurement, messengers, pages, cleaning and maintenance, and restaurant and cafeteria services.

**5.18** The Sergeant-at-Arms performed a dual role. In the traditional ceremonial role, reporting to the Speaker, he attended the Speaker with the Mace on entering and leaving the Chamber or going to the Senate, and was responsible for security. In the building services role, reporting to the Clerk, he directed the duties outlined above.

#### **Need for an Administrator**

**5.19** The organizational arrangements described above have been in place since 1964 when the organization and administrative practices of the House were last examined. The 1964 study, conducted by the Civil Service Commission, recognized that the Clerk's principal function was the highly specialized job of being the Speaker's senior procedural adviser. Indeed, the concept of organization outlined in that study was to lighten the Clerk's load by employing professional managers to ensure efficiency in administrative functions. We found, however, that the Clerk, in addition to heavy procedural responsibilities, had to spend a large amount of time on administrative and personnel matters. When the House was in session, the Clerk regularly worked 14 to 16 hours per day, mainly on procedural matters.

**5.20** Our review of the existing organizational structure indicated a need to separate procedural from administrative responsibilities. The Clerk's responsibility to keep the Speaker advised on the procedural aspects of the parliamentary process was a full-time job. Thus, it was not practicable for him to administer more than 3,000 people and a budget of \$96 million, especially when the House was in session. We concluded that an Administrator was needed to provide leadership and direction for the administrative function. To give effect to this proposal, there was a need to align all Chamber-related responsibilities under the Clerk and all administrative responsibilities under an Administrator. Given the complexity and importance of administrative activities, we concluded that the Administrator, with status equivalent to a deputy head, should report directly to the Speaker of the House.

**5.21** Under the proposed functional organization, shown in Exhibit 5.1, the Clerk would remain the senior permanent deputy head, devoting his efforts to advising and supporting the Speaker and the House on procedural matters. The Sergeant-at-Arms, also reporting to the Speaker, would be responsible for ceremonial duties, as well as for control of security, access to buildings and other related building services. The Administrator would report to the Speaker and be responsible for directing and co-ordinating the administrative affairs and support services of the House. Such an allocation of responsibilities would ensure that production activities and routine internal service activities were directed and controlled by the Administrator, the officer with the appropriate experience and training for handling such duties. The Clerk, the Sergeant-at-Arms and the Administrator, with the Speaker as Chairperson, would constitute an Executive Committee for the general, financial and personnel administration of the House.

**5.22** These proposals would require support and approval from the Commissioners of Internal Economy, the Management and Members' Services Committee and the House Leaders. Certain proposals would require changes in governing legislation and the Standing Orders of the House to make certain that the mandates, authorities and responsibilities of the Clerk, the Administrator and the Sergeant-at-Arms were clearly defined.

**5.23** *Responsibility for procedural and administrative activities in the House should be separated. The Clerk should remain the senior permanent deputy head, reporting to the Speaker and advising and supporting the Speaker and the House on procedural matters.*

**5.24** *The position of Administrator should be established to co-ordinate and direct the administrative functions of the House. The Administrator, with status equivalent to a deputy head, should report directly to the Speaker.*

**5.25** *The Sergeant-at-Arms should provide protective, security and building services support. The Sergeant-at-Arms, with status equivalent to a deputy head, should report directly to the Speaker.*

**5.26** As indicated in the appended Summary of Recommendations and Management's Comments, the House has implemented the essence of these recommendations since the completion of our audit. We noted, however, that certain functions additional to protective, security and building services support will report to the Sergeant-at-Arms. We are advised that these include the purchasing function, which is an internal service activity, and restaurant and cafeterias, which is a production activity. As described in paragraph 5.21, we believe that these should be part of the administrative responsibilities assigned to the Administrator.

### **Financial and Personnel Administration**

**5.27** Our 31 October 1979 report to the Speaker and subsequent sections of this Chapter outline fundamental weaknesses in the administration of the financial and personnel functions in the House. Our work indicated the need to establish, under the direction of the Administrator, the positions of Comptroller and of Director General, Human Resources. The people in these positions would be responsible for developing and implementing effective financial and personnel practices throughout the organization.

**5.28** *The positions of Comptroller and Director General, Human Resources should be established, reporting to the Administrator. The Comptroller should develop and direct all aspects of financial administration. The Director General, Human Resources should develop and direct all aspects of personnel administration.*

### **Senior-Level Classification**

**5.29** Since the 1960s, senior-level classification and compensation in the House of Commons have been a source of controversy among concerned Members and senior appointed officials. Recent discussion and correspondence have highlighted the difficulty of using standards developed for the Public Service to evaluate certain specialized positions in the House of Commons, and the difficulties created by having two classification systems, one for staff appointed through Order in Council and another for staff appointed directly by the House. To date, there has been no solution to the problem of classifying and compensating senior-level positions in a manner which is perceived to be fair and equitable.

**5.30** We were asked by the Speaker to include a special study of senior-level classification as part of our audit because of continuing concern about perceived inequities. This study, based on current compensation and classification principles, included: a review of relevant House correspondence, documentation and reports; a review of related documents from other jurisdictions; interviews with senior House officials and experts in other jurisdictions; and reviews of draft recommendations with persons previously interviewed.

**5.31** Comparative classification and compensation data based on the 1979-80 fiscal year were gathered and analysed from provincial legislative assemblies, the United Kingdom and the United States. In addition, we reviewed current policy and proposals in the Public Service of Canada with respect to senior-level classification. The findings and recommendations of our study were presented as part of our comprehensive audit report to the Speaker of the House of Commons. A summary follows.

### **Parliamentary Independence**

**5.32** Legislation and precedent confirm that Parliament is sovereign and independent, and that the Commissioners of Internal Economy are the final authority for all moneys expended in respect of the House of Commons. In contrast, under the Order in Council system of appointment, the executive arm of government retains the right to classify and compensate senior-level positions in the legislative arm. In our opinion, therefore, the Commissioners of Internal Economy should have final authority in respect of all classification and compensation within the House of Commons.

### **Traditional Stature**

**5.33** Interviews with experts in parliamentary processes led us to conclude that traditional stature is a legitimate factor in classifying senior-level positions in legislative assemblies. Incumbents require status commensurate with their relationship with Members, as well as classification and compensation congruent with the role they assume within the parliamentary process. This principle is verified by the equation of senior-level House of Commons positions with Senate positions bearing the same titles.

### **Inequities**

**5.34** Our study disclosed that inequities in compensation existed at senior levels in the House. For example, the Clerk was paid \$2,323 a year less than certain procedural staff who reported two levels lower. The Clerk Assistant was paid \$5,423 less than certain procedural staff who reported one level lower and \$253 less than certain procedural staff two levels lower.

**5.35** These discrepancies can be attributed to the use of two different systems which have different standards, different decision makers and different administrations. As the Treasury Board Secretariat observed in a 1978 report, it is extremely difficult to equate specialized positions in the House with Public Service standards.

**5.36** Our interviews with senior staff verified that primary concern is with internal, rather than external, equity. Implementation of a single classification system, under the control of the House, would help to resolve internal inequities.

As long as there are two systems used to classify and compensate senior-level positions, there will be internal inequities.

**5.37** External equity must also be ensured. External comparisons should be made primarily with the Public Service of Canada, but also with other legislative assemblies which may compete for the same skills and talents.

### **Method of Appointment and Classification**

**5.38** Currently, two methods are used to appoint and classify senior-level positions. The arrangement puts certain top positions under the control of the Privy Council rather than the Commissioners of Internal Economy. Ideally, senior-level positions would be controlled by the Commissioners of Internal Economy through an equitable system. This would resolve major inequities, preserve parliamentary independence and ensure that traditional statute was properly evaluated.

**5.39** Two options might be considered. First, Order in Council as a method of appointment might be replaced by appointment by the Speaker, subject to the approval of the Commissioners of Internal Economy and the general authority of the House. Second, Order in Council might be continued, but the Commissioners of Internal Economy would be given explicit authority to classify and set compensation for senior-level positions. These latter powers are currently included in the authority to appoint. Under either option, tenure should be provided for a specified period unless cause for dismissal is shown. Either method would resolve the inconsistency of the executive arm of government having control over appointment, classification and compensation of senior-level positions in the legislative arm.

**5.40** A single classification system should be established for compensation purposes under the control of the House of Commons through the Commissioners of Internal Economy. Senior-level positions should be classified by informed Members, giving primary importance to internal equity. Comparative analyses of senior classifications and related compensation ranges should be made with the Public Service of Canada and with other legislative assemblies.

### **Features of the System**

**5.41** We interviewed House officials and experts from other jurisdictions and, based on current compensation principles, determined appropriate features for a classification system to be used in the House. After identifying these features, we reviewed them with House officials to confirm their suitability.

**5.42** The classification system should be simple and easy to administer, credible to House officials, and under the control of the House. The system

should be based on factors appropriate to the House, such as knowledge, judgement, consequence of opinions and traditional stature. A consistent, equitable and broad-range compensation structure should be established for approval by the Commissioners of Internal Economy.

### **Suggested Ranking**

**5.43** We developed a suggested ranking of senior-level positions based on our analysis of the factors involved. For this purpose, we interviewed experts both within the House and in other jurisdictions.

**5.44** Three clusters of senior-level positions in the House should be developed. Subject to rating of finalized responsibilities by the Commissioners of Internal Economy, these should be:

- Clerk, Administrator and Sergeant-at-Arms, with the Clerk enjoying primacy;
- Law Clerk and Parliamentary Counsel, Clerk Assistant, Comptroller, and Director General, Human Resources; and
- Directors of Services, Second Clerk Assistant, and Third Clerks Assistant.

### **Financial Management**

**5.45** At the time of our audit, responsibilities for financial management were divided among a number of senior employees and organizational units. For example, the House of Commons Act clearly makes responsibility for preparing the Estimates the prerogative of the Speaker, the Clerk and the Sergeant-at-Arms. In practice, the Financial Services Branch played a minor role in financial management matters and had no responsibility for challenging or reviewing budgets.

### **Organization of Financial Management**

**5.46** The Director of Administration and Personnel administered the financial function through the Financial Services Branch, which employed 10 staff members who were primarily concerned with the pre-audit of Members' telephone accounts and constituency expenses. Routine accounting, such as allotment control and payrolls, financial reporting, and the processing of suppliers' invoices was carried out by about 25 employees of a District Services Office of the Department of Supply and Services (DSS).

**5.47** Financial activities were fragmented without a comptrollership function to bind them together. This lack of direction in financial management was evident from the following:

- The roles, responsibilities and reporting relationships of employees associated with the financial function were not defined, documented or communicated. There were no formal job descriptions, and the relationship between employees of the Financial Services Branch and those of the DSS District Services Office was not clear.
- Senior staff in the Financial Services Branch did not advise or exercise any functional authority over employees who had financial responsibilities in other branches of the House of Commons. In fact, no policies or procedures on the functional authority of financial staff existed. Each directorate had considerable autonomy in financial matters and, as a result, practices were not consistent.
- Financial and administrative policies and procedures were not documented.
- Procedures were not in place to ensure that consistent emphasis was placed on internal controls when systems were operated by more than one organizational unit. Responsibilities were not well defined and standards and established routines for processing invoices for payment were lacking. This led to some cases where invoices were approved without assurance of receipt of goods or services.
- Attempts were not made to forecast workloads or to analyse service level requirements. As a result, there was a tendency to add staff within the various branches when backlogs occurred rather than to review all relevant factors to determine whether such action was warranted.

**5.48** Although House Estimates have increased substantially in recent years and a number of new services have been added, financial expertise has not kept pace with increased expenditures and services. Employees lacked the training and experience needed to carry out the full scope of activities required to bring financial management and control of the House to acceptable standards.

**5.49** As a first step in strengthening financial control, it is essential, in our view, that the major elements of the financial function, including those contracted from DSS, report directly to the Comptroller. These include:

- development and communication of policy and procedure;
- financial planning;
- accounting and record keeping; and
- cost analyses, performance measurement and financial reporting.

**5.50** A formal review of the organization of the financial function should be undertaken to determine staffing needs and to consolidate, under the direction of the Comptroller, the key elements of financial management and control. Responsibilities, authorities and reporting relationships should be clearly defined and communicated through position descriptions, organization charts and systems descriptions.

**5.51** Financial policies, authorities and procedures should be documented, approved and communicated to help achieve uniformity, consistency, and the required degree of internal control.

### **Planning and Budgeting**

**5.52** There were no formal systems for planning in the House, and few organizational units had attempted to develop operational plans. In fact, rather than planning beforehand, most units reacted as crises developed. When planning did take place, it generally occurred without the involvement of financial officers. There was little involvement in the budgeting process by employees below the director level. The Financial Services Branch had no analytical input or effective challenge in the budgetary process; its involvement was limited to collating the submissions from the three principal directorates into required formats. For example, analyses were not made to determine whether existing activities were carried on in an economical and efficient manner.

**5.53** The budgetary process in the House was directed primarily toward ensuring that funds were available for the services that were provided, whatever their cost. The process had not been effective in determining the level of resources required, in controlling resource utilization or in ensuring accountability of managers for performance.

**5.54** Comprehensive systems of budgetary control and an effective challenge process by the Financial Services Branch should be developed and implemented.

### **Management Reporting**

**5.55** Monthly financial reports produced by DSS identified expenditures incurred during the month and for the year to date. Comparisons to budget were made only at the directorate level, not at the operating (branch) level.

**5.56** The reports did not include key information required for control, such as commitment of funds and production statistics. Although DSS maintained the financial records and prepared financial reports, it lacked the information needed to conduct adequate cost analyses of specific operational activities and services. The Financial Services Branch, the logical unit to provide this service, was not staffed to perform these functions.

**5.57** Cost systems in several operating units were not satisfactory and need to be upgraded to provide better management information. For example, the full cost of restaurant operations was not visible. The cost system used for various publications of the House such as Hansard, Journals and committee Minutes was rudimentary, recording only actual cash expenditures without comparisons to operating budgets or the use of performance indicators.

**5.58** Several types of financial analysis and reporting could be useful to the House. For example, the maintenance activity employs a substantial number of staff who perform routine, repetitive functions. A system of measuring and monitoring productivity of this and other groups would provide useful information to management in deciding on staff needs and service levels. In addition, Members would be better informed if they were provided with comprehensive, quarterly reports on the status of their staff budgets as well as reports on their constituency offices, printing allowances and travel allowances.

**5.59** Until meaningful cost analyses and performance information are available, it will not be possible to make fundamental improvements in managerial accountability or in the information provided in the Estimates and Public Accounts.

**5.60** Plans should be established to implement comprehensive reports to provide management with information required for budgetary control, level of service/related cost analyses and performance measurement of House support services.

### **Electronic Data Processing**

**5.61** The Computer Systems Branch of the House of Commons consisted of four people whose experience was largely in the field of text processing. This level of staffing was insufficient to support the development of electronic data processing (EDP) systems in the House. As a result, the development of EDP systems has been unco-ordinated and there have been no formal comprehensive EDP policies or plans.

**5.62** The Computer Systems Branch should be given a mandate and adequate staff to assist all EDP users in the House and should be responsible for setting standards for EDP development, formulating EDP plans with the users, and co-ordinating the development of EDP applications of user groups.

### **Internal Audit**

**5.63** The risks arising out of the organizational and system weaknesses were increased by the absence of an internal audit function to provide management with an independent review of House operations. Internal audit performs a

constructive role, reporting to management whether directives are followed, financial and other information is accurate, controls over assets and expenditures are effective, and whether due regard is given to economy and efficiency.

**5.64**      *The position of Internal Auditor should be established, reporting directly to the Administrator. The Executive Committee might constitute an appropriate Audit Committee.*

### **Personnel Management**

**5.65**      Our audit included an examination of personnel management practices affecting the 2,000 administrative staff of the House; it did not include those applicable to approximately 1,000 Members' staff. We reviewed all major personnel activities including staffing, compensation and employee relations as well as three areas of special interest: the role of the Personnel Division; the nature and extent of existing personnel policies; and the relationship of the House of Commons to the Public Service in the context of personnel management.

**5.66**      Our audit of personnel management concentrated on the activities of the Personnel Division. Our findings indicated that there were significant weaknesses, particularly in the legislative and regulatory framework for personnel management. We also found that controls were weak and that the role of the Personnel Division was not clearly defined or communicated.

### **Framework for Personnel Management**

**5.67**      The House of Commons is an independent employer. It is not subject to public service personnel legislation or to direction from the Treasury Board with respect to personnel management. The legislative and regulatory framework for personnel management is contained in the House of Commons Act, R.S.C. 1970 c. H-9, and the Standing Orders of the House of Commons. Personnel policy is established by the Commissioners of Internal Economy with the Speaker as Chairperson. The Clerk and Sergeant-at-Arms have authority to hire, direct and control staff, subject, in certain cases, to the approval or orders of the Speaker or the House.

**5.68**      We found the legislative and regulatory framework, including personnel management policies established by the Commissioners of Internal Economy, to be fragmented, unclear and incomplete. The Standing Orders of the House of Commons provide similar personnel management authority to the Clerk and the Sergeant-at-Arms; however, they do not provide specific direction or mechanisms to ensure the consistent exercise of personnel authority across the House, nor do they provide any indication of the principles that should underlie the exercise of personnel authority (for example, the merit principle as a basis for staffing).

**5.69** The Standing Orders require the Speaker to review all vacant positions before they are filled to ascertain the continuing need for each position. Asking this of the Speaker is impractical in an organization of some 2,000 persons. We found that personnel policies did not exist in several key areas such as employee relations, staffing and manpower planning. Where they did exist, they had not been collected into a manual or other document for dissemination to managers for reference.

**5.70** In the absence of clear policy directives, operating procedures have not been developed or implemented. Thus, personnel management practices have been inconsistent, resulting in potential for inefficient, uneconomical and inequitable personnel practices.

**5.71** We believe that a fundamental review of personnel management principles and policies, including the legislative and regulatory framework for personnel management in the House of Commons, is warranted. Such a review should consider, but not be limited to, reviewing the collective interest of Members concerning how they wish the House to be perceived as an employer, the possible benefits of adopting key principles set out in current Public Service personnel policy and legislation, and the need to establish clearly, at the administrative level, responsibility, authority and accountability for personnel management in the House.

**5.72** *A fundamental review of the legislative and regulatory framework for personnel management should be undertaken to clarify responsibility, authority and accountability for personnel management in the House. The terms of reference should require, as a minimum, thoroughly investigating and making recommendations concerning:*

- *the fundamental principles that should govern personnel management in the House;*
- *the methods, legislative change or other, by which those principles should be conveyed; and*
- *the assignment of responsibility, establishment of authority and specification of accountability for personnel management, including the development, implementation and evaluation of personnel policy.*

### **Personnel Management Controls**

**5.73** Essential controls over many aspects of personnel management were weak or non-existent. Most procedures had not been documented or communicated to managers; actual procedures followed varied markedly from one organizational unit to the next. Job descriptions did not exist for many House of Commons positions. Although a training and development policy existed, no

procedures had been developed to govern its implementation. Existing information systems were inadequate for personnel management. The data base was not reliable since there was neither verification of input nor regular updating of stored information. There were no regular personnel reports tailored to user needs or suitable for basic monitoring or more detailed analysis of personnel-related activities. The costs of personnel activities were not known or monitored. As a result, there was no assurance that they were conducted with due regard for economy, efficiency and operational effectiveness.

**5.74** Responsibility, authority and accountability for ensuring that the policies of the Commissioners of Internal Economy were followed and for ensuring that personnel management decisions were taken with due regard for economy, efficiency and operational effectiveness had not been defined or communicated. The Personnel Division had no mandate or authority for the prior review of significant personnel management decisions. In addition, there was no independent, systematic audit of personnel management in the House.

**5.75** In our view, the immediate development and implementation of effective controls governing the personnel function in all administrative areas of the House is required. In the longer term, the development of an appropriate control framework is an essential part of the fundamental review suggested earlier.

**5.76** *Responsibility and authority for monitoring and reviewing personnel activities should be clarified, documented and communicated to operational managers.*

**5.77** *Policies of the Commissioners of Internal Economy, standard personnel management practices and related systems and procedures should be documented and distributed to managers.*

**5.78** *Personnel-related information needs of all levels of management should be identified and information systems and reports should be developed to meet these needs.*

#### **Role of the Personnel Division**

**5.79** Our findings indicated that the Personnel Division had neither the responsibility nor the authority to provide a full range of personnel management services. The Division did not possess adequate numbers of staff with the appropriate expertise to provide service in all personnel functions. The Division was essentially inactive in such important areas as employee relations, manpower planning, and training and development. Personnel officials have estimated that upward of 80 per cent of staffing and classification actions in the House have been taken without the involvement of the Personnel Division, which was

informed only when pay action was requested. The Division had limited effect as a control mechanism; it had no clear accountability for the adequacy of personnel management in the House and there was no basis for monitoring personnel procedures. As a result of these weaknesses, personnel management in the House was inconsistent and lacked direction.

**5.80** We believe that steps should be taken to redefine the role of the Personnel Division and to secure the necessary co-operation of the senior officers of the House in this endeavour. The needs and interests of the collectivity of the House, as represented by the Standing Committee on Management and Members' Services and the Commissioners of Internal Economy, should be determined relative to the nature and level of services that can and should be provided by the Personnel Division. The Division should propose objectives, estimate resource requirements and submit a proposal, together with clear means of achieving accountability for the authority requested, to the Commissioners of Internal Economy. The proposal should also outline procedures for year-to-year revisions to both mandate and authority as the needs of the House change.

**5.81** *The role of the Personnel Division should be formally reviewed and redefined with a view to improving the effectiveness of personnel management. As a minimum, the review should take into consideration the responsibility and authority to be vested in the Personnel Division, appropriate means for ensuring accountability and the needs of the House for a full range of personnel management services.*

**5.82** *In conjunction with a review of its role, the Personnel Division should evaluate its management practices and structure with a view to ensuring that the organization of the Division is appropriate to the nature and level of service to be provided and that methods exist to ensure that the objectives and priorities of the Personnel Division support the needs of the senior officers of the House.*

### **Legislative Services and Publications**

**5.83** The Legislative Services Directorate prepares texts of House and committee publications for printing by DSS and distribution to Members, Senators and the public. The following texts are prepared:

- daily Order Paper and Notices;
- daily Votes and Proceedings;
- sessional Journals of the House of Commons;
- daily House of Commons Debates (Hansard);
- committee Minutes of Proceedings and Evidence; and
- indexes of House and committee publications.

**5.84** The Legislative Services Directorate also provides general administrative and procedural support to the Table Officers and committees, televises the proceedings of the House, provides sound amplification and recording systems, and maintains the written, audio and video records of the House and committees.

**5.85** For 1980-81, the Directorate has approximately 400 staff and a budget of about \$16.6 million. Approximately \$6.5 million of the budget is for DSS for printing the House of Commons Debates and committee Minutes of Proceedings and Evidence.

#### **Official House of Commons Publications**

**5.86** The branches of the Legislative Services Directorate operated independently without the direction and discipline of approved objectives, plans and budgets. The lack of planning and effective financial management has resulted in weaknesses in control over operations which tended to be staffed to meet peak workloads. Systems for measuring and monitoring workloads, productivity and costs were either non-existent or inadequate.

**5.87** Separate French and English branches have been established for the Journals activity. In addition, separate French and English printing units were used to produce the advance copies of the House of Commons Debates. Thus, there may be excessive supervisory overhead and under-utilization of bilingual staff.

**5.88** Management controls over the activities of the Legislative Services Directorate such as operational planning, budgeting and performance measurement should be upgraded to ensure that these services are provided economically and efficiently.

**5.89** The separate French and English branches for the Journals activity should be integrated, and consideration should be given to establishing a single, bilingual printing unit for producing the advance copies of the House of Commons Debates.

#### **Committee Support**

**5.90 Committee clerks.** Procedural and administrative support for committees is provided through committee clerks. The requirement to remain neutral in their dealings with committee members has tended to limit the initiative of the committee clerks. In this somewhat passive role, they have concentrated on providing the committees with procedural advice, making arrangements for

meetings, preparing agenda, and carrying out administrative functions. If some of the recommendations of recent studies by the Royal Commission on Financial Management and Accountability, the Business Council on National Issues, and the President of the Privy Council of the 31st Parliament are implemented, committees may require a more aggressive support staff and improved access to research assistance. Some of the main recommendations of these studies included:

- reducing turnover in committee membership;
- providing committee chairmen with remuneration and tenure for the life of a Parliament;
- giving committees authority to select subjects for investigation;
- giving committees greater opportunity to influence legislation;
- giving committees greater opportunity to influence estimates; and
- increasing staff support for committees.

**5.91** Committee clerks could be required to take an active role in suggesting lines of inquiry and witnesses, evaluating evidence, and assisting committee chairmen and members in drafting committee reports. It was our impression that some committee clerks lacked the work experience and skills to assume these tasks. The secondment for a specific time of promising public servants, who have achieved senior executive or equivalent status, to the position of committee clerk is one approach that might add new vigour to the role of the clerks. These individuals could also provide committee members with a better understanding of government programs and departmental management systems.

**5.92** The committee clerk should be the chief administrator for a committee and should be the chairman's chief contact for all committee support services. The position of committee clerk should be upgraded. Consideration should be given to seconding from the Public Service senior executives with proven administrative skills who have knowledge of government programs and departmental management systems to serve in some clerk positions.

**5.93 Research assistance.** Committees currently obtain much of their research assistance from the full-time research staff of the Library of Parliament. If committees are going to become more effective in examining legislation and policy issues, they will require more complex, analytical research and thus may have periodic demands for individuals with specialized research capabilities who can be dedicated to them for a session or throughout an investigation. The most economical way of obtaining short-term specialist research support would be to contract for it as needed. Co-ordination of this type of research support would call for the services of a full-time Research Co-ordinator.

**5.94** To support greater demands for research assistance, consideration should be given to establishing a position of Research Co-ordinator. The incumbent of the position should be knowledgeable about potential sources of research assistance for committees and be able to advise committee chairmen accordingly through the committee clerks. The Research Co-ordinator would not conduct research for committees but should be responsible for co-ordinating all aspects of obtaining research assistance for committees, whether under contract or from the Library.

### **Cleaning and Maintenance**

**5.95** The Sergeant-at-Arms, in his role as Director of Building Services, is responsible for cleaning and maintenance activities in the House. Approximately 450 persons are engaged in these activities, although only 25 are considered to be maintenance tradesmen. The others are cleaners who provide housekeeping and caretaking services. The annual cost of cleaning and maintenance exceeds \$3 million. The Department of Public Works provides basic building maintenance services to the House which include mechanical, electrical and plumbing maintenance, and building renovations.

**5.96** House staff felt that they provided high quality cleaning and maintenance services. In fact, they viewed the quality of their work to be much higher than that found in other government or private organizations. This desire for excellence stems from pride in maintaining the Centre Block as a national showplace and from the importance placed on satisfying Members' requirements and minimizing complaints.

**5.97** We found, however, that lack of standards and performance measures, and inadequate budgetary control and management reporting, had limited the ability of the Sergeant-at-Arms to hold staff accountable for providing economical and efficient cleaning and maintenance services.

**5.98** Although the quality of maintenance was highly regarded by House staff, no standards were defined for major maintenance programs. Consequently, standards were largely determined on the basis of Members' specific requests directed to the Sergeant-at-Arms or to the Head of the Maintenance Branch. No documented or approved guidelines existed to provide direction.

**5.99** Maintenance standards or guidelines are most appropriate for major programs such as painting and carpeting. Guidelines would identify the frequency with which offices and other areas should normally be painted or carpeted. They would also outline circumstances that could lead to an earlier requirement for painting or carpeting.

**5.100** Efficient, economical housekeeping and caretaking require that staff be well trained in the best methods available. Training is critical for instructing staff in proper techniques, in safe work habits and in the most economical use of cleaning equipment and materials. Little emphasis was placed on the training of over 400 cleaning staff. Workers received on-the-job instruction informally from lead hands and foremen but there was little training in cleaning methods, including the safe and effective use of chemical cleaning agents. Furthermore, no one person had been assigned responsibility for providing or co-ordinating training or for monitoring the availability and use of improved techniques and equipment. Thus, no assurance existed that training and instruction were given consistently or adequately.

**5.101** Management information systems, budgets, cost reporting and performance measurement were inadequate for effectively controlling cleaning and maintenance activities. Management did not develop budgets or monitor costs in terms of programs and projects, although work was performed in this manner. Typical major projects or programs included painting, carpeting, and office cleaning.

**5.102** There were no performance measures to assess productivity of cleaning in the House. Typical productivity information might include cleaning costs per square foot or the number of square feet cleaned per hour. This kind of information could assist management in monitoring long-term trends, in comparing performance and productivity of work crews, in budget development and in holding cleaning staff accountable for the work they perform.

**5.103** We developed an estimate of House cleaning costs to illustrate the type of data that could be developed and compared to industry norms or averages. Our cost-per-square-foot comparison indicated that daily cleaning costs for the House were two to three times the norm for commercial or other government office buildings. We also compared the number of square feet of office space cleaned per hour. This comparison confirmed that productivity of House staff was only a third of industry norms.

**5.104** House office space is included in the Centre Block, the East and West Blocks, the Confederation Building and the previous Metropolitan Life Building (South Block). Costs associated with cleaning the Centre Block would be higher than industry averages because of its prominence as a public building and national showplace. However, the other structures are essentially office buildings, even though they receive some public visitors.

**5.105** These variances from industry averages may be explained by a number of factors, including the lack of direct comparability with similar structures of national importance, higher standards for House cleaning, efficiency factors and higher wage rates. Because there was a lack of information on cleaning costs and performance, we could not account for the significance of each factor.

**5.106** Standards and guidelines outlining levels of service appropriate for major maintenance programs should be established.

**5.107** Training of cleaning staff in proper work methods should receive increased emphasis. Responsibility should be assigned to one person for training housekeeping and caretaking staff and monitoring improvements in cleaning materials, techniques and equipment.

**5.108** Budgetary procedures and cost and performance reporting should be upgraded to provide improved control over cleaning and maintenance:

- Budgets should be prepared by managers at operating levels of the organization, and actual results should be regularly reported against budget allowances. Wherever practical, budgets should be based on program or project categories.
- Performance measures should be established to assess the productivity of cleaning and maintenance staff in the House. Appropriate comparisons should be made with industry averages.

### **Restaurant and Cafeteria Services**

**5.109** Restaurant and cafeteria services consist of the Main Dining Room in the Centre Block of the Parliament Buildings, a Members' Dining Room, three cafeterias, a coffee shop, various small dining rooms, and two bookstores. The Standing Joint Committee on the Restaurant of Parliament, with representation from the House and the Senate, is responsible for setting restaurant and cafeteria rules and prices and for overseeing operations. The General Manager of the complex, reporting to the Sergeant-at-Arms, has a staff of just over 200 employees, with temporary staff hired on an as-needed basis for special functions.

#### **Restaurant Benefits**

**5.110** Restaurant and cafeteria privileges are generally considered to be a perquisite of working on Parliament Hill. The restaurant and cafeteria complex is noted for good food and excellent service.

**5.111** Our review showed that little attention was given to the extent of subsidization of food operations. This situation arose from a lack of adequate cost information on restaurant operations and from the fact that the Joint Committee on the Restaurant of Parliament met infrequently. In addition, restaurant management did not have the authority to make selected price increases within approved policy limits in response to changes in market prices of food and beverages. We also found that financial management and control practices needed to be upgraded in the restaurant and cafeteria operations.

**5.112** In the fiscal year ended 31 August 1979, the restaurant and cafeteria complex had a net loss of \$3.5 million on revenues of \$1.9 million. Based on an analysis of revenues and costs estimated by facility in 1978-79, the Main Dining Room had an operating loss of \$900,000 and the coffee shop and cafeterias had an operating loss of \$2 million. The total operating loss excluded \$600,000 of "non-operating" costs (such as general administrative expenses) not allocated to restaurant and cafeteria operations.

**5.113** The main beneficiaries of the coffee shop and cafeterias are Parliament Hill support staff and the Parliamentary Press Gallery. Given the magnitude of the loss on these operations, we believe that a review of cafeteria benefits is needed.

**5.114** Cafeteria benefits provided to Parliament Hill staff and members of the Parliamentary Press Gallery should be reviewed by the Joint Committee on the Restaurant of Parliament.

### Pricing

**5.115** Policies with respect to pricing of meals in the restaurant and cafeterias have not been formalized and approved by the Joint Committee on the Restaurant of Parliament. For example, the Committee has not formally established cost-recovery targets on food and beverages. Current practice is to establish prices so as to recover food costs and certain other direct expenditures (the cost of temporary help, staff meals and laundry service). However, other major direct costs such as full-time staff and kitchenware are excluded. Based on cost analysis for the 1978-79 fiscal year, we estimated that it would require increased total revenues of about 190 per cent to recover all the costs of the restaurant and cafeterias. These estimates did not allow for any decline in business activity that might result if prices were to increase. The Committee last approved a price increase in June 1977 and has not delegated any authority to restaurant management for revising prices within approved policy limits.

**5.116** Pricing policies for the restaurant and cafeterias should be formally defined and approved. These policies should define cost-recovery practices and targets, and the delegation of the authority to make certain types of pricing changes.

**5.117** Management and the Joint Committee on the Restaurant of Parliament should regularly review prices. Pricing reviews and decisions should be based on and supported by comprehensive analysis of the cost-recovery impact of pricing alternatives.

## **Financial Controls**

**5.118** The restaurant and cafeteria complex employs a number of financial controls, including a monthly operating statement and regular inventory counts. There are, however, no monthly budgets or cash forecasts. Monthly operating statements, by food facility, are not prepared on a full cost basis, including the costs of labour, kitchenware and equipment used in preparing and serving food for individual facilities. Revenues and estimated costs of dinners and banquets arranged by the Special Reservations Branch are not highlighted in operating statements. Moreover, regular restaurant performance measures, such as the unit cost of meals and gross margins after all direct food and labour costs, are not regularly tabulated and monitored. In addition, there is no standard cost system for food preparation to ensure adequate control of food inventories.

**5.119** Budgets and financial results of the restaurant and cafeteria complex are not fully reported to Parliament through the Estimates and Public Accounts. The only "full accounting" of restaurant and cafeteria activities is contained in the annual financial statements audited by the Auditor General.

**5.120** *Financial management and control practices should be upgraded and improved by:*

- *developing monthly budgets and cash forecasts;*
- *preparing operating statements, by food facility, on a full cost basis, including, in particular, the costs of labour, kitchenware and equipment used in preparing and serving food;*
- *regularly tabulating and monitoring practical restaurant performance measures, such as the unit cost of meals, inventory turnover ratios, and gross margin percentages after all direct food and labour costs; and*
- *developing a practical cost accounting system, including standard costs for meals, to achieve adequate control of food inventories.*

**5.121** *Budgets and financial results of the restaurant and cafeterias should be fully reported to Parliament through Estimates and Public Accounts procedures.*

**Summary of Recommendations and Management's Comments**

	<i>Recommendations</i>	<i>Management's Comments</i>
<b>Organization</b>		
<b>5.23</b>	Responsibility for procedural and administrative activities in the House should be separated. The Clerk should remain the senior permanent deputy head, reporting to the Speaker and advising and supporting the Speaker and the House on procedural matters.	The essence of this recommendation was implemented effective July 1980.
<b>5.24</b>	The position of Administrator should be established to co-ordinate and direct the administrative functions of the House. The Administrator, with status equivalent to a deputy head, should report directly to the Speaker.	Implemented, July 1980.
<b>5.25</b>	The Sergeant-at-Arms should provide protective, security and building services support. The Sergeant-at-Arms, with status equivalent to a deputy head, should report directly to the Speaker.	Implemented, with these and additional functions reporting to the Sergeant-at-Arms.
<b>5.28</b>	The positions of Comptroller and Director General, Human Resources should be established, reporting to the Administrator. The Comptroller should develop and direct all aspects of financial administration. The Director General, Human Resources should develop and direct all aspects of personnel administration.	Implemented. The position of Comptroller was staffed in August 1980. The Director General of Human Resources was appointed in July 1980.

*Recommendations*

*Management's Comments*

**Senior-Level Classification**

**5.40** A single classification system should be established for compensation purposes under the control of the House of Commons through the Commissioners of Internal Economy. Senior-level positions should be classified by informed Members, giving primary importance to internal equity. Comparative analyses of senior classifications and related compensation ranges should be made with the Public Service of Canada and with other legislative assemblies.

**5.42** The classification system should be simple and easy to administer, credible to House officials, and under the control of the House. The system should be based on factors appropriate to the House, such as knowledge, judgement, consequence of opinions and traditional stature. A consistent, equitable and broad-range compensation structure should be established for approval by the Commissioners of Internal Economy.

**5.44** Three clusters of senior-level positions in the House should be developed. Subject to rating of finalized responsibilities by the Commissioners of Internal Economy, these should be:

- Clerk, Administrator and Sergeant-at-Arms, with the Clerk enjoying primacy;

*Recommendations*

*Management's Comments*

- Law Clerk and Parliamentary Counsel, Clerk Assistant, Comptroller, and Director General, Human Resources; and
- Directors of Services, Second Clerk Assistant, and Third Clerks Assistant.

**Financial Management**

<b>5.50</b>	A formal review of the organization of the financial function should be undertaken to determine staffing needs and to consolidate, under the direction of the Comptroller, the key elements of financial management and control. Responsibilities, authorities and reporting relationships should be clearly defined and communicated through position descriptions, organization charts and systems descriptions.	Agreed. A review of the organization for the financial management function was conducted and a new strengthened organization headed by a Comptroller was subsequently established.  This new organization consolidates responsibilities and authority for financial management under the direction of the Comptroller and clearly identifies reporting relationships.  Position descriptions have been prepared and classified for the positions falling within the authority of the Comptroller. Staffing action is expected to be completed by the end of October 1980.
<b>5.51</b>	Financial policies, authorities and procedures should be documented, approved and communicated to help achieve uniformity, consistency, and the required degree of internal control.	Agreed. A financial management manual incorporating financial policies systems and procedures for the House of Commons is now being developed. A number of subject areas have already been documented and, once approved by the Executive Committee, will be communicated to those concerned.
<b>5.54</b>	Comprehensive systems of budgetary control and an effective challenge process by the Financial Services Branch should be developed and implemented.	Agreed. Detailed planning, budgeting and reporting systems appropriate for the House of Commons are being developed. It is intended to implement these systems gradually over the next two years to ensure they are fully understood and supported by all levels of management.

*Recommendations*

*Management's Comments*

**5.60** Plans should be established to implement comprehensive reports to provide management with information required for budgetary control, level of service/related cost analyses and performance measurement of House support services.

**5.62** The Computer Systems Branch should be given a mandate and adequate staff to assist all EDP users in the House and should be responsible for setting standards for EDP development, formulating EDP plans with the users, and co-ordinating the development of EDP applications of user groups.

**5.64** The position of Internal Auditor should be established, reporting directly to the Administrator. The Executive Committee might constitute an appropriate Audit Committee.

The systems will recognize that senior management of the House retains primary responsibility for defining the goals and objectives of the administration of the House of Commons and for orienting its activities, while at the same time ensuring that managers at all levels participate in the process, and remain fully accountable for results and resources entrusted to them.

Officers within the Comptroller's Office will have analytical input to the planning, budgeting and reporting process.

Agreed. The planning, budgeting and reporting process referred to above will provide for periodic reviews by management of the performance of the administration of the House in relation to established operational plans. Service and cost analyses, as well as the use of performance indicators in relevant areas will form part of this process. Improved reporting to Members of the House of Commons as to the status of their budgets and allowances, will also be introduced.

Agreed. A statement of expanded mandate is being prepared for the Computer Systems unit. Appropriate organizational changes will be made as needed.

Agreed. The position of Director, Internal Audit has been established and is being staffed. An Audit Committee will be formed with the following initial membership: Clerk, Sergeant-at-Arms and Administrator.

*Recommendations*

*Management's Comments*

**Personnel Management**

**5.72** A fundamental review of the legislative and regulatory framework for personnel management should be undertaken to clarify responsibility, authority and accountability for personnel management in the House. The terms of reference should require, as a minimum, thoroughly investigating and making recommendations concerning:

- the fundamental principles that should govern personnel management in the House;
- the methods, legislative change or other, by which those principles should be conveyed; and
- the assignment of responsibility, establishment of authority and specification of accountability for personnel management, including the development, implementation and evaluation of personnel policy.

**5.76** Responsibility and authority for monitoring and reviewing personnel activities should be clarified, documented and communicated to operational managers.

**5.77** Policies of the Commissioners of Internal Economy, standard personnel management practices and related systems and procedures should be documented and distributed to managers.

Agreed. A thorough review is being undertaken.

Agreed. A Human Resources Policy Manual is being prepared for wide distribution.

Agreed.

	<i>Recommendations</i>	<i>Management's Comments</i>
<b>5.78</b>	Personnel-related information needs of all levels of management should be identified and information systems and reports should be developed to meet these needs.	Agreed. Now under development.
<b>5.81</b>	The role of the Personnel Division should be formally reviewed and redefined with a view to improving the effectiveness of personnel management. As a minimum, the review should take into consideration the responsibility and authority to be vested in the Personnel Division, appropriate means for ensuring accountability and the needs of the House for a full range of personnel management services.	Agreed.
<b>5.82</b>	In conjunction with a review of its role, the Personnel Division should evaluate its management practices and structure with a view to ensuring that the organization of the Division is appropriate to the nature and level of service to be provided and that methods exist to ensure that the objectives and priorities of the Personnel Division support the needs of the senior officers of the House.	Agreed. The Personnel Division has been re-structured and will be re-assessed within the next year.

#### **Legislative Services and Publications**

**5.88** Management controls over the activities of the Legislative Services Directorate such as operational planning, budgeting and performance measurement should be upgraded to ensure that these services are provided economically and efficiently.

	<i>Recommendations</i>	<i>Management's Comments</i>
5.89	The separate French and English branches for the Journals activity should be integrated, and consideration should be given to establishing a single, bilingual printing unit for producing the advance copies of the House of Commons Debates.	This is currently under active review.
5.92	The committee clerk should be the chief administrator for a committee and should be the chairman's chief contact for all committee support services. The position of committee clerk should be upgraded. Consideration should be given to seconding from the Public Service senior executives with proven administrative skills who have knowledge of government programs and departmental management systems to serve in some clerk positions.	The development of a professional procedural service is in progress, after agreement in principle by the Commission of Internal Economy.
5.94	To support greater demands for research assistance, consideration should be given to establishing a position of Research Co-ordinator. The incumbent of the position should be knowledgeable about potential sources of research assistance for committees and be able to advise committee chairmen accordingly through the committee clerks. The Research Co-ordinator would not conduct research for committees but should be responsible for co-ordinating all aspects of obtaining research assistance for committees, whether under contract or from the Library.	This matter will be considered in connection with the reorganization of the procedural branches and the development of professional procedural services.

*Recommendations*

*Management's Comments*

**Cleaning and Maintenance**

**5.106** Standards and guidelines outlining levels of service appropriate for major maintenance programs should be established.

**5.107** Training of cleaning staff in proper work methods should receive increased emphasis. Responsibility should be assigned to one person for training housekeeping and caretaking staff and monitoring improvements in cleaning materials, techniques and equipment.

**5.108** Budgetary procedures and cost and performance reporting should be upgraded to provide improved control over cleaning and maintenance:

- Budgets should be prepared by managers at operating levels of the organization, and actual results should be regularly reported against budget allowances. Wherever practical, budgets should be based on program or project categories.
- Performance measures should be established to assess the productivity of cleaning and maintenance staff in the House. Appropriate comparisons should be made with industry averages.

Agreed. Action currently in progress.

Agreed.

Agreed. Review now underway.

*Recommendations*

*Management's Comments*

**Restaurant and Cafeteria Services**

<b>5.114</b>	Cafeteria benefits provided to Parliament Hill staff and members of the Parliamentary Press Gallery should be reviewed by the Joint Committee on the Restaurant of Parliament.	Agreed.
<b>5.116</b>	Pricing policies for the restaurant and cafeterias should be formally defined and approved. These policies should define cost-recovery practices and targets, and the delegation of the authority to make certain types of pricing changes.	Agreed. Review now underway.
<b>5.117</b>	Management and the Joint Committee on the Restaurant of Parliament should regularly review prices. Pricing reviews and decisions should be based on and supported by comprehensive analysis of the cost-recovery impact of pricing alternatives.	Agreed. Pricing reviews will be periodically reported to the Joint Committee for decision.
<b>5.120</b>	Financial management and control practices should be upgraded and improved by:	Agreed. A comprehensive study will be undertaken in order to develop and implement improved financial management and control practices.
	<ul style="list-style-type: none"><li>- developing monthly budgets and cash forecasts;</li><li>- preparing operating statements, by food facility, on a full cost basis, including, in particular, the costs of labour, kitchenware and equipment used in preparing and serving food;</li></ul>	

*Recommendations*

*Management's Comments*

- regularly tabulating and monitoring practical restaurant performance measures, such as the unit cost of meals, inventory turnover ratios, and gross margin percentages after all direct food and labour costs; and
- developing a practical cost accounting system, including standard costs for meals, to achieve adequate control of food inventories.

**5.121** Budgets and financial results of the restaurant and cafeterias should be fully reported to Parliament through Estimates and Public Accounts procedures.

Means of improving disclosure of the financial results of operations will form part of the comprehensive study noted above.



**DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT**



# **DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT**

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## DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT

### The Department

#### Role

**6.1** The Department of Indian Affairs and Northern Development (DIAND) was established in 1966 by the Government Organization Act, S.C. 1966-67, c. 25 (later the Department of Indian Affairs and Northern Development Act, R.S.C. 1970, c. I-7). It is responsible for the delivery of three programs: Indian and Inuit Affairs (IIA), Northern Affairs (NA), and Native Claims. During our audit, DIAND's responsibility for the Parks Canada program was transferred by the Government to the Department of the Environment.

**6.2** The objectives of the Department are set out in the 1979-80 Estimates as follows:

Indian and Inuit Affairs Program: In keeping with the principles of self-development, access of opportunity, responsibility and joint participation within Canadian society, to assist and support Indians and Inuit in achieving their cultural, social and economic needs and aspirations, and to ensure that Canada's constitutional and statutory obligations and responsibilities to the Indian and Inuit peoples are fulfilled.

Northern Affairs Program: To advance the social, cultural, political and economic development of the Yukon and Northwest Territories, in conjunction with the Territorial Governments and through co-ordination of activities of the federal departments and agencies, with special emphasis on the needs of native northerners and the protection of the northern environment.

Native Claims Program: To enable native claimants to research, develop and negotiate claims and to achieve land claims resolution.

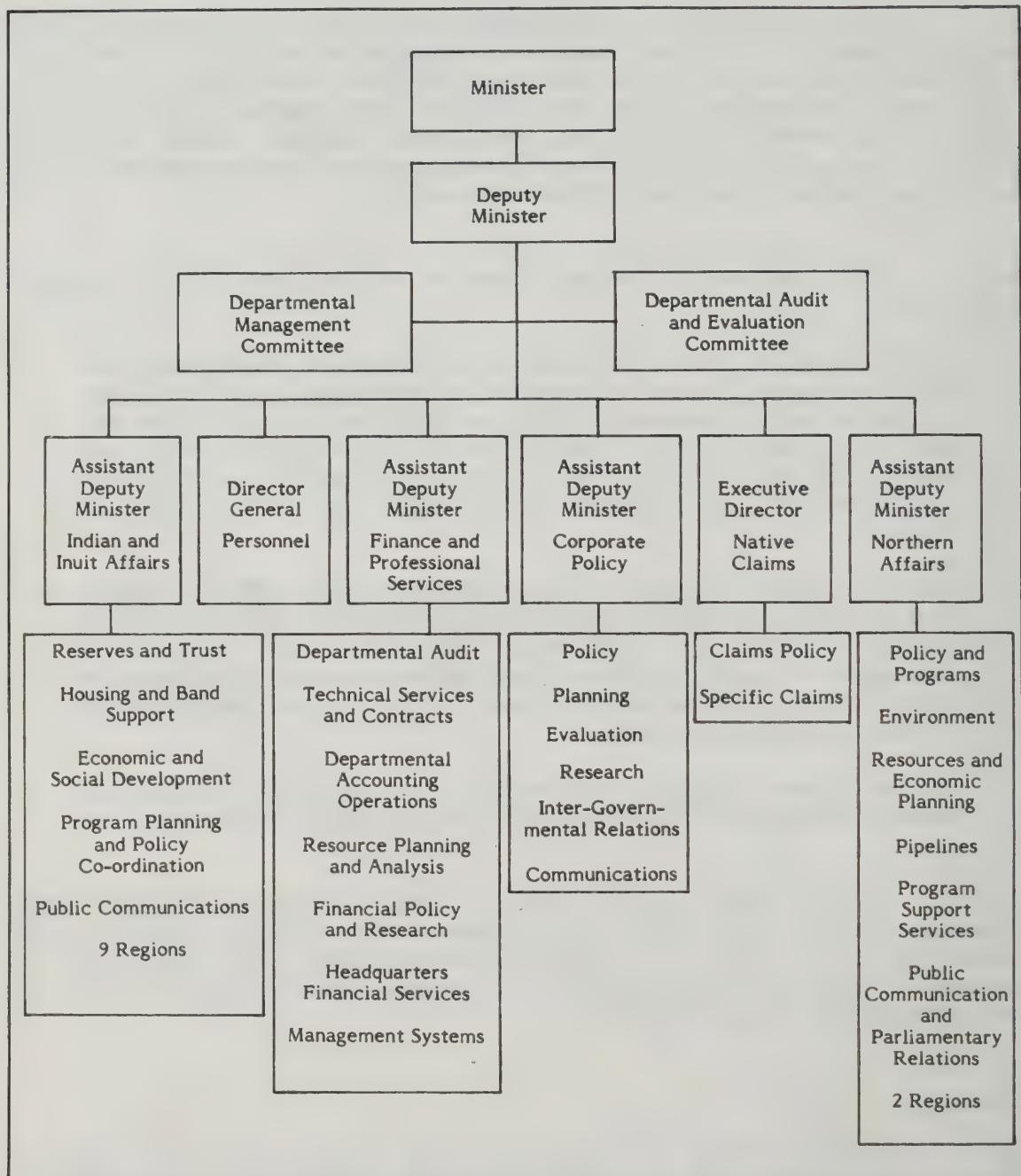
**6.3** In this Chapter, the term Indian is used as defined by the Department: a person registered or entitled to be registered as an Indian according to the Indian Act, R.S.C. 1970 c. I-6, that is, a status Indian. The Department has defined the term native as "Canadians of aboriginal descent" including status and non-status Indians, Inuit and Metis.

#### Resources

**6.4** During 1979-80, the Department was allocated over \$1.1 billion to carry out its programs. The allocation was divided among programs as follows:

## DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT

## SUMMARY ORGANIZATION CHART - 31 MARCH 1980



	<u>Allocation</u> (millions of dollars)	<u>Person-years</u>
Indian and Inuit Affairs	\$ 762.1	5,569
Northern Affairs		884
- Transfer payments	297.7	
- Other expenditures	66.5	
Native Claims - grants and contributions	5.1	
Administration	<u>24.2</u>	<u>812</u>
Total	<u>\$ 1,155.6</u>	<u>7,265</u>

**6.5** The Indian and Inuit Affairs Program accounts for 77 per cent of person-years and approximately 89 per cent of expenditures, when transfer payments to territorial governments are excluded. These transfer payments have little impact on the level of the Department's activity.

#### **Organization**

**6.6** The Department is organized along program lines as set out in Exhibit 6.1. Three operational units report to the Assistant Deputy Minister, Indian and Inuit Affairs. The Reserves and Trust unit administers Canada's statutory responsibilities in respect of native people. The Housing and Band Support unit is the focus for capital projects, and the Economic and Social Development unit is concerned with social needs, including education. The nine regions in the IIA program deliver all aspects of the program on a day-to-day basis.

**6.7** The Assistant Deputy Minister, Northern Affairs is also responsible for three operational units. The Policy and Programs unit addresses the social dimensions of northern development and co-ordinates Federal Government activities. Protecting and managing the northern environment and its renewable resources is the responsibility of the Environment unit. The Resources and Economic Planning unit is concerned with economic development in the north, including non-renewable resources. The two regions in the NA program process applications and permits for exploration and exploitation of resources in the north.

#### **Environment**

**6.8** In carrying out its activities, the Department works from a legislative mandate comprising 38 federal acts and 13 treaties. It manages large territories,

provides services to Indians and Inuit and maintains contact with five federal departments which also deliver programs designed specifically for the same population. The Department also maintains contact with various Indian and Inuit associations whose stated needs may not always coincide with current departmental plans and priorities.

**6.9** The influences of this working environment are complex and impose conflicting demands on DIAND. It is important that the Department, the native population and Parliament have a clear and common understanding of the mandate of the Department in meeting the needs of the native population.

**6.10 The legislative mandate.** The Indian and Inuit Affairs Program administers 22 federal acts. The principal statute is the Indian Act, which covers matters such as the definition of legal rights of Indians, reserve lands, band government and management of Indian money. Indian treaties are also a specific part of the legislative mandate of the program and many of the provisions of the treaties have been incorporated into the Indian Act and the Appropriation Acts.

**6.11** Because of the scope of this legislation, the Indian and Inuit Affairs Program is responsible for more than a hundred different operational tasks, ranging from keeping a register of land transactions to providing social assistance. This broad range of activities is complex to administer and difficult to co-ordinate. The 16 acts administered by the Northern Affairs Program are concerned mainly with such matters as federal-provincial or federal-territorial arrangements, federal administration of resources in territories and financial assistance to territorial governments.

**6.12 Co-ordination with other federal programs.** In developing policies to deliver its services, the Department must take into account other federal programs which are concerned with the same population or the same geographic area. Five other departments and agencies provide services that have a major effect on the Department's programs. The Department maintains liaison with them at Headquarters and in the field. The Interdepartmental Committee on Indian and Native Affairs was formed in 1976 to co-ordinate liaison activities. The areas of influence and levels of involvement evidenced by expenditures for these services are shown in the following table.

<u>Services for Native People (1978-79 Estimates and Annual Reports)</u>	<u>Expenditures (millions of dollars)</u>
Canadian Employment and Immigration Commission - job creation and training	\$ 101.4
Department of Regional Economic Expansion - economic development	27.9

<u>Services for Native People (1978-79 Estimates and Annual Reports)</u>	<u>Expenditures (millions of dollars)</u>
Department of Justice - legal assistance	1.5
National Health and Welfare - health services	125.6
Secretary of State - cultural development	18.1
Department of Indian Affairs and Northern Development - Indian and Inuit Affairs Program	690.5

**6.13** The Department is also required to co-ordinate its Northern Affairs Program with the governments of the Northwest Territories and the Yukon Territory and with 20 different federal agencies.

**6.14 Relationships with native people.** Departmental officials cite several factors which they believe contribute to the complexity of the Department's relationships with native people. The first is the matter of services in areas of provincial jurisdiction. For most Canadians, the provision of many services, such as education and welfare, is within provincial jurisdiction. For status Indians and Inuit, the responsibility for delivering these services rests with DIAND. When Indians on reserves use provincial services, DIAND often refunds the cost of these services to the provinces. This has necessitated the development of a process of tripartite negotiations involving the Department, the provinces and native people.

**6.15** Indian and Inuit representation is another issue. Indians and Inuit have formed political associations at local, provincial and national levels to make known their aspirations and demands, particularly to political leaders. Representation through special interest groups is commonplace in a political process and normally does not create unusual difficulties. In the case of DIAND, however, it is the entire native population which is represented, and any managerial decision is potentially exposed to public debate. As a result, extensive consultations take place that require complicated decision processes. Resulting decisions are often worded vaguely and, in such cases, they provide limited direction to the parties concerned.

**6.16** The economic base of Indian bands is the third factor cited. Various studies carried out by the Department have recognized that the resources available to most Indian people on reserves are insufficient for them to live according to the standard of living enjoyed by other Canadians. Departmental managers add that, in many cases, the present economic base is too limited to support the traditional Indian and Inuit ways of life.

**6.17** According to DIAND, the challenge facing Indian and Inuit people is to rebuild an economic base within the Canadian economy while at the same time preserving their unique identity and culture, protecting their treaty rights, and satisfying their wish to obtain immediately the physical and educational benefits available to other Canadians.

**6.18** Basic needs, including food, shelter, clothing, health and education, are seen by the Department as immediate priorities. The allocation of the IIA Program's 1979-80 budget was as follows:

	<u>Allocation</u> (millions of dollars)	<u>Percentage</u>
Basic Needs	\$ 577.1	76
Administration	58.3	7
Economic and Employment Development	51.7	7
Band Government	61.5	8
Reserves and Trusts	<u>13.5</u>	<u>2</u>
Total	<u><u>\$ 762.1</u></u>	<u><u>100</u></u>

**6.19** Departmental managers point out that the lack of an economic base can threaten the effectiveness of other activities. For example, they suggest that the value of education may be questionable if there is little opportunity to use it, as may be the value of band government if the band remains economically dependent. They also question whether the longer-term objective of building a stable economic base can be accomplished without the necessary administrative and technical training.

**6.20** Responding to cultural sensitivities and resolving the conflict between immediate and longer-term priorities add to the complexities of management and to the difficulty of making decisions about the allocation of limited resources.

**6.21** **Indian heterogeneity.** Currently, there are some 300,000 status Indians in Canada. Of these, approximately 72 per cent live on reserves and the remainder off-reserve. Because of the resulting difference in lifestyles, there are significant differences in the needs of the two groups.

**6.22** Other socio-economic differences are apparent. The Indian population includes 10 linguistic groups and 58 dialects; the location of reserves varies from wilderness to urban areas. The 573 Indian bands vary in size from 2 to 9,950 members, averaging 525 members in 1979. Band revenues also vary significantly. For example, of the \$102.9 million in oil and gas revenue earned by bands in 1978-79, Alberta bands alone earned \$101.9 million. Of this amount, \$83.7 million was shared among five bands. A single band received \$51.3 million.

**6.23** Given the variation in the goals, abilities and priorities of individual bands, it is difficult to implement national policies uniformly. What is right for one band might be irrelevant or even harmful to another. In such circumstances, policy development becomes extremely complex, and the development and application of policies by management require a high degree of sensitivity to the environment.

**6.24** **Implications for departmental planning and control.** This outline of the environment within which DIAND operates highlights two features -- complexity and controversy. The environment is complex because of the many federal and provincial programs designed for Indians, Inuit and the north, and because wide variations exist in the requirements and goals of native peoples.

**6.25** According to DIAND, the environment generates controversy between the Department and native peoples because the traditional planning and control requirements of Parliament and central agencies often go beyond the administrative experience of Indian bands. The Department also points out that native people appear to see existing planning and control mechanisms as an attempt by the Department and the Government to limit their ability to decide their own future.

**6.26** The Department's operating environment thus imposes special demands on planning and control. For example:

- The environment is complex, with different demands from different client groups; therefore planning and control systems need to be well developed and adapted to varied conditions.
- Because of this complexity, special effort needs to be made to provide clear operational direction within the Department and appropriate reports for Parliament.
- Decision making takes more time, therefore identification of priorities is important.
- Relevant efficiency measures can be difficult to define, therefore greater emphasis needs to be placed on other aspects of operational performance.

**6.27** We took these aspects into account in determining the scope of our audit and in developing our audit observations.

### **Audit Scope**

**6.28** Our comprehensive audit of the Department of Indian Affairs and Northern Development concentrated on the planning and control systems to support financial, personnel and program management. We also examined the

systems used to report to managers, central agencies and Parliament on the Department's activities.

**6.29** Because the Parks Canada Program was transferred to Environment Canada in June 1979, we discontinued our review of that program in the comprehensive audit of DIAND. The Native Claims Program accounts for less than one per cent of departmental expenditures, and key decisions taken are the result of political negotiations and sometimes legal processes. We did not review the operations of the program.

**6.30** Because the Indian and Inuit Affairs Program accounts for most of the Department's activities, we reviewed the activities of the program in greater detail than those of the Northern Affairs or Administration Programs. Our audit covered the following principal areas:

- reporting to Parliament;
- planning and performance monitoring;
- systems to implement a major policy of the IIA Program to transfer program delivery responsibilities to Indian bands;
- procedures to measure and report on program effectiveness;
- internal audit;
- electronic data processing;
- financial controls; and
- payroll costs management.

**6.31** In addition, we examined DIAND's segment of the Public Accounts of Canada for the fiscal year 1979-80 and, at the request of the House of Commons, we carried out a special audit of Indian Band Funds. We appreciate the co-operation that was extended to us by departmental personnel throughout our audit.

#### **Summary of Audit Observations**

**6.32** To meet its responsibilities to "assist and support Indians and Inuit" and to "advance the social, cultural, political and economic development of the Yukon and Northwest Territories", the Department undertakes activities that influence nearly every aspect of life for native populations. Thus, the Department's role in relation to Canada's native population must be clear and understood by all parties involved. Further, the Department needs sound internal systems for program planning, for controlling activities and resources, and for reporting program achievements to Parliament.

**6.33** We found that departmental managers did not have a common interpretation of what the Department's role was. Lack of unanimity was most evident in the stance that managers believed the Department should take in respect of the demands of native people. For example, managers posed the following questions: Is the role of the Department one of prescription, where resources are allocated according to priorities interpreted by the Department, or is it one of support, where the allocation is based on priorities determined by native people? Is it some of each and should the mix vary from one native group to another? Is the Department accountable for producing social and economic gains for the native people, or is it responsible simply for ensuring an equitable distribution of financial support as native groups pursue their own objectives? Responses to these kinds of questions would have implications for accountability and control within the Department.

**6.34** In documents approved by Parliament, published by the Department or prepared for internal planning purposes, we found no clear statements of the socio-economic effects or financial distribution results the departmental programs or managers were expected to achieve in relation to native groups. We therefore concluded that the direction given to the Department concerning its relationship with native people was not sufficiently clear to identify what DIAND should be accountable for in relation to its mandate. We also found little evidence to indicate that the Department had tried to clarify its accountability to Parliament by making assumptions in regard to its mandate, developing corresponding objectives and seeking approval for them.

**6.35** In our opinion, the absence of specific objectives, plans or goals against which the Department and its managers could compare their achievements was an underlying cause contributing to management control weaknesses reported in this and other sections of this Chapter.

**6.36** Over the last three years, revisions to the financial organization, expenditure accounting and budget control systems have created conditions where departmental control over appropriations and allotments is now generally satisfactory. Serious weaknesses, however, existed in other areas of financial control. In 1979-80, contributions to Indian bands exceeded \$300 million. The Department did not have assurance that these contributions had been used for the purposes to which they were allocated. Repeated attempts had been made to reach agreements with Indian bands about the kinds of controls that should be in place; however, agreement had not been reached with all the bands involved. We support current departmental endeavours to develop methods of funding control that are more compatible with the requirements and capabilities of individual bands.

**6.37** The Department intends to write off \$17 million of \$81 million loaned by the Indian Economic Development Account. Although the Department has not specified what would be a reasonable loss ratio for these types of loans, a significant portion of the write-off, in our view, stems from inadequate management controls.

**6.38** The Department has met the format requirements specified by the Treasury Board for the Estimates and Public Accounts. We found two areas, however, where the information contained in these documents could be improved. The program activity structures did not adequately reflect the purpose for which moneys were allocated, and the capital projects listed in the Estimates did not represent a realistic forecast of the capital projects later undertaken. Variances between the Estimates and Public Accounts in respect of capital projects and expenditures were not explained. For the fiscal year 1978-79, 35 projects over \$250,000 were listed in the Estimates for a total of \$19.7 million. Of these, only eight, totalling \$3.9 million, were reported in the Public Accounts, with no explanation for the difference. Other projects, not set out in the Estimates, were undertaken with Treasury Board approval.

**6.39** The Department was devoting substantial effort to planning activities; a considerable amount of information, useful for planning purposes, was available. However, those activities were not being carried out in a systematic and organized manner, and departmental planning efforts at all levels were not consolidated into documents for approval by senior management, communicated for implementation, or used as a basis for monitoring and control.

**6.40** Systematic methods of control were generally absent across the Department. Exercise of control depended on the style of individual managers. Management's attention tended to be focused on current capital and program delivery projects carried out in Indian and northern communities, but there was no formal project control system that could have identified potential difficulties in time to avoid them or at least minimize their impact. An example of the effect of these planning and control weaknesses can be found in the implementation of the policy for transferring program delivery responsibilities to Indian bands.

**6.41** We found that the Department had neither forecast the rate nor specified the conditions for transferring program delivery. Progress of implementation was not monitored and the impact on departmental program delivery costs and operations was not monitored or assessed. We estimated that, following the implementation of this policy, departmental expenditures increased in excess of \$36 million yearly to deliver the same level of activity. The Department had not forecast these costs and had no immediate explanations for them. We did not determine how much of these additional costs could have been avoided through better planning or better management procedures, but based on discussions with the Department we estimated that the portion could be significant. With no improvement in planning and control procedures, complete implementation of this policy could add several millions to the current annual cost of program delivery.

**6.42** In summary, our audit indicated that:

- the role of the Department concerning its relationship with native people was interpreted differently by various levels of departmental management;

- objectives of the Department, its programs and its managers did not specify what results should be achieved or when;
- planning at all levels in the Department generally did not result in documents which were approved by managers and used as a basis for monitoring and control;
- control over the purposes for which resources were used was generally weak, particularly in respect of more than \$300 million in contributions paid to Indian bands; and
- reporting to Parliament was incomplete, and capital projects listed in the Estimates did not represent a realistic forecast of the capital projects later undertaken.

**6.43** This combination of weaknesses describes a situation which has arisen, in our opinion, from a combination of lack of sufficient direction from Government and inaction on the part of DIAND in making assumptions in regard to its mandate, formulating objectives specific enough to be guides to action and seeking approval for them. As a result, Parliament could not exercise effective control over the purposes for which funds allocated to DIAND for native people have been used.

**6.44** Recent efforts have been made by the Department to remedy some of these deficiencies. By the time our audit was completed, responsibilities for planning had been assigned, a departmental Directional Plan had been prepared and approved, and operational and annual action plans were scheduled for completion in time for the 1982-83 fiscal year. Changes in funding methods for Indian bands are currently being discussed with Treasury Board, and a more precise definition of the role of the Department in relation to Indians and Inuit is being sought in discussions with the Government and representatives of Indian and other native groups.

**6.45** On 15 November 1979, the House of Commons requested that this Office examine the Indian trust accounts administered by the Department. We found that accounting systems were satisfactory and that transactions for 1979-80 were properly recorded for the Indian Band Funds taken as a whole. We did not attempt to express an opinion on the receipts and disbursements of the 1,146 individual trust accounts for the current and previous years because of the audit costs involved and the present lack of availability of records.

#### **Observations and Recommendations**

#### **Reporting to Parliament**

**6.46** As explained in the Introduction to the comprehensive audit chapters, the Office of the Comptroller General has undertaken a project to revise the form

and content of the Estimates and Public Accounts. When the Department's sections of these documents are revised, the following audit observations should be taken into account.

**6.47 Performance information.** In keeping with the aim of demonstrating to parliamentarians the intended results or effects of expenditures, there is a need to provide performance information for key activities and sub-activities. For example, in the Education activity, although performance targets have not been specified, it would still be useful to present to Parliament the actual performance achieved, accompanied by information on other Canadian communities. This would bring to Parliament's attention any significant disparities and thereby encourage corrective action by the Department.

**6.48** Some examples of comparative information that could be presented to Parliament include:

- school attendance for selected age groups;
- proportion of children completing high school;
- the average school grade completed successfully at a specified age; and
- the average cost for one child to attend school for one year.

This type of information is currently available in the Department and it would not require a major effort to gather it together for reporting purposes.

**6.49 Level of detail and program activity structure.** The information presented in the Estimates and Public Accounts deals with major portions of expenditure and, although it reflects the Department's intentions, it is not presented in sufficient detail to describe the operations of the Department or the activities undertaken. The 1979-80 Estimates, for example, detail the total moneys forecast to be spent on the activity called Education. No information is available on the 10 sub-activities performed in providing education for Indians. It is not possible, for instance, to identify the proportions of expenditures dedicated to providing elementary/secondary education compared with post-secondary education or to designing, constructing and maintaining schools and student residences. Similarly, it is not possible to identify the expenditures incurred by the Department in providing education utilizing departmental staff, as opposed to band-delivered or provincially-delivered educational services.

**6.50** We noted that the definition of activities and the aggregation of sub-activities under each one is based largely on the organizational structure within each program. This arrangement is useful from a departmental viewpoint because it creates a closer relationship between moneys allocated and spending responsibilities. From a funding and accountability viewpoint, however, it would be more

informative to define program activities in terms of the effects sought and to group sub-activities in terms of their contribution to these effects. For example, in the IIA Program, the sub-activities called social assistance, child care, adult care and housing all contribute to the physical well-being of Indians and Inuit. They could be aggregated under one activity, Support of Physical Needs, as opposed to being classified currently under two activities: Social Services and Community Infrastructure and Services. This re-arrangement would focus attention on the purposes for which money is spent as well as on the activities to which it is allocated. An illustration of a revised program activity structure was discussed with the Department.

**6.51** The same is true for the Northern Affairs Program. One of the activities, Northern Environmental Protection and Renewable Resources, has nine sub-activities about which no information is provided. For example, it is not possible for Parliament to compare the purposes and results of expenditures on protection of the environment with expenditures relating to the exploitation of renewable resources. We concluded that there is a need to provide more detailed breakdown of the Department's programs in order to identify activities where outputs can be related to costs.

**6.52** *The Department should categorize and group program activities information in the Estimates to reflect the intended results and group sub-activities in terms of their contribution to these results.*

**6.53 Capital projects.** Few details are provided on capital expenditures in the Estimates and Public Accounts. Standard information such as the following is provided: Previously and Currently Estimated Total Costs; Forecast Expenditures; Estimates for the year concerned; and Future Years' Requirements. In 1980-81, an estimated \$73 million will be spent on capital expenditures by the Department. Additional disclosure is necessary to inform parliamentarians about resource allocation. Suggestions of additional information that could be made available in the Estimates include:

- numbers and descriptions of capital projects for which funds will be expended (for example, number of houses or schools to be constructed and renovated);
- unit costs relative to costs of other comparable projects;
- degree of completion of projects;
- explanation of significant variances in original and currently estimated total costs; and
- reporting of future years' requirements by year of expected expenditure and by type (for example, houses and classrooms needed).

**6.54** We compared the information provided in the Estimates with that provided in the Public Accounts for the fiscal year 1978-79 and concluded that the information in the Estimates did not represent a realistic forecast of DIAND's capital projects actually undertaken. The Estimates identified 35 projects over \$250,000 totalling \$19.7 million. Of these, only 8 totalling \$3.9 million were reported in the Public Accounts. The main reason for the difference is that most capital projects listed in the Estimates were not carried out as planned. Other projects, not set out in the Estimates, were undertaken with Treasury Board approval.

**6.55** *The Department should ensure that all capital projects listed in the Estimates are accounted for in the Public Accounts, to indicate actual spending against plan.*

**6.56 Related program costs of other government departments.** In addition to the Department of Indian Affairs and Northern Development, which has primary responsibility under the Indian Act for administering a variety of programs aimed at providing services to the Indian and Inuit communities, several other departments have related expenditure programs affecting Indians and Inuit. The present Estimates and Public Accounts do not disclose the other departments involved, the total amount spent, and what specific activities are performed. As with the other key features mentioned, this information would help parliamentarians obtain a better understanding of the Department's operations.

### **Planning and Control**

**6.57** In a department as large and complex as DIAND, planning and performance monitoring systems are essential. One would expect that these systems would produce comprehensive planning documents and related performance reports. We found no evidence to indicate that these reports and documents were being produced. Consequently, we concentrated on the planning and control processes which should normally produce them. We reviewed the information available for planning and the procedures and organization through which plans were prepared and planning decisions were made. We also reviewed the impact of planning on departmental operations in general and, in particular, its effect on the methods used to monitor achievements against plans and implementation of decisions.

**6.58 Information available for planning.** We sought information that reflected what Government expected of the Department, the conditions of native people and their expectations, and we sought operational information related to departmental activities.

**6.59** In addition to the objectives and sub-objectives set out in the Estimates, the Department's interpretation of Government expectations for the Indian and Inuit Affairs Program is contained in a departmental document entitled

"Approach to Government-Indian Relationship". For the Northern Affairs Program, these are contained in a number of documents including the "Government Activities in the North" publication and the "Annual Northern Expenditure Plan".

**6.60** The current conditions and expectations of the Department's client populations are similarly well documented. Examples include regional situation reports documenting the expectations of Indians, and the Northwest Territories' published paper, "Position of the Legislative Assembly on Constitutional Development in the Northwest Territories". A more recent example is a departmental report entitled "Indian Conditions: A Survey". We observed that considerable operational data existed on past and current activities for both the IIA and NA Programs. For the Social Services activity which we reviewed in more depth, we noted that, although considerable data were kept at the regional level, little was available at Headquarters.

**6.61** From our review of the information available for planning, we concluded that the nature and amount of information available was generally satisfactory, with the exception that operational information was unco-ordinated and, in many cases, was difficult to retrieve without special effort.

**6.62 The planning process.** We found that the manner in which planning was carried out varied widely. The subject matter dealt with was based mostly on requirements perceived locally and, except for financial planning and budgeting, the documentation produced varied in detail and quality. Local plans were focused on operational activities such as visits to reserves and negotiation of agreements with Indian bands; however, these plans were not complete and therefore could not be aggregated into overall operational or financial plans. Program-wide plans were extensions of past program and operating expenditures associated with activities such as education, child care and housing, and operational resource requirements were not derived from these extensions. Operating expenditures were therefore not adequately supported.

**6.63** The links between these local and program-wide plans were not established, and it was not possible to reconcile the operating expenditures listed in the Estimates, or even a portion of them, with local plans.

**6.64** Although substantial resources were dedicated to planning in the Department, these resources were achieving only limited results. A uniform departmental planning process had not been established. In particular, we found that:

- responsibility for planning had not been established, and its purposes had not been defined or agreed upon except for budgetary purposes;

- a department-wide planning procedure had been developed but had not been agreed on or implemented;
- the roles and responsibilities of managers and support staff, as they relate to planning, had not been agreed on;
- the nature of decisions to be taken, such as the policies and procedures to adopt, the resources to allocate to activities, and the measures to use for evaluating performance, had not been identified; and
- the content and scope of plans had not been specified.

**6.65** In the NA Program, managers discounted the need for strategic or directional planning on the basis that their role was only to manage an effective response to external demands. We found that the NA Program planning effort concentrated only on financial planning carried out as part of the Program Forecast and Estimates cycles. The objectives of that program, as stated in the Estimates, indicate a more active role. In our opinion, the position taken by managers needs to be reassessed.

**6.66 The impact of planning.** Insufficient or incomplete planning systems can affect any and all facets of departmental activities. Wrong decisions can be made, or decisions not taken when they should be. In particular, a stable base for management controls is not provided. We reviewed how a major policy to transfer delivery responsibilities to Indian bands was planned and implemented. The results of this review are reported separately in the next section of this Chapter. As part of the review, we found that, except for budget control, monitoring and control were carried out on an informal basis, dependent generally on the style of the individual manager.

**6.67** In our view, uncertainty about the role of the Department is a factor contributing to this situation. Until this role is clarified and communicated, planning is likely to remain unfocused. However, in the meantime, there are still a number of steps the Department could take to correct planning deficiencies.

**6.68 The Department should ensure that:**

- the purpose of planning is defined, communicated and understood throughout the Department;
- the expected content and scope of plans for the Department, its programs and field offices are defined and understood;
- roles and responsibilities of managers and support staff, as they relate to planning, are defined and understood;

- work programs and schedules for planning are prepared; and
- a planning officer is appointed to co-ordinate the conduct of these tasks.

**6.69** Since the completion of our audit, we have been informed that more specific planning responsibilities have been assigned to each program and to departmental executives. A Directional Plan has been approved and the Department intends to complete operational plans in time to prepare the 1982-83 Estimates. These are positive steps indicating commitment of departmental executives to improving planning and control functions.

#### **Transfer of Program Delivery Responsibilities to Indian Bands**

**6.70** As early as 1965, the Department of Citizenship and Immigration, then responsible for the Indian Affairs program, began using Indian bands to carry out program activities. For example, funds were provided to the bands for the purpose of hiring teachers and social assistance professionals to work on reserves, where previously such personnel had been employed by the Department. This devolution practice became policy in 1974 and, by 1975, 400 bands were managing \$100 million. In the fiscal year 1978-79, 519 bands managed \$230 million in program funds.

**6.71 Audit scope.** We reviewed the implementation of this policy and its impact on program administration. We examined:

- planning documentation;
- the process by which transfer decisions were made;
- the agreements formalizing the transfer decisions; and
- the effect of this policy on administration costs.

**6.72** We reviewed the findings of a departmental task force on the operations of the social assistance activity, including how transfer to Indian bands might have affected delivery of that activity.

**6.73 Planning and implementation.** Our review of the Department's transfer of responsibility for program administration and delivery to Indian bands identified a number of major planning and control inadequacies.

**6.74** The methods of funding through contributions and allocating administrative costs to Indian bands were developed centrally. Managers expected that the transfer policy would reduce departmental person-years; however, we found

no analysis to support this expectation and there was no evidence of a comprehensive implementation plan. The speed and the manner in which the policy was being implemented was left largely to the discretion of the managers involved. In particular:

- there was no forecast of the number of bands likely to participate in the program, of the anticipated rate of transfer, or of the elapsed time required to achieve a controlled transfer;
- there was no estimate of the probable impact of program transfer on administrative and program costs over the short term; and
- there were no clearly defined conditions under which requests for program transfer would be accepted and no indication of the way in which decisions would be made.

**6.75** In our opinion, the Department had not adequately planned the implementation of this policy. Without an implementation plan, no clear objectives or schedules can be set out against which managers can judge progress. We also concluded that the Department was not adequately managing the implementation of the policy. The evidence available indicated that the Department:

- had not determined which level of departmental management should approve transfers and how;
- was inconsistent in training band staff to the standards required for program transfer;
- had not prescribed means to ensure that program transfer occurred without loss of control or continuity in service levels;
- had not been successful in implementing a standard agreement to formalize the delegation of responsibility and the terms and conditions for program transfer; and
- was not monitoring progress of implementation, the effect on total program costs and service levels, or the impact on administration costs.

**6.76** During our audit the Department carried out a national review of the social assistance program identifying deficiencies at both the band and departmental district offices. The Department is consolidating the results of this review and developing action plans to ensure implementation of its study team's recommendations. The Department is currently drafting national operating guidelines for the Social Services program.

**6.77** *The Department should complete and implement its national operating guidelines associated with the Social Services activity and develop similar guidelines for other activities.*

**6.78 Impact on administrative costs.** We estimated the administrative costs resulting from program transfer and noted a significant increase in annual costs. In calculating this increase, we deducted the effects of inflation and increase of volume of services offered. The annual administration costs incurred by both the program and the bands as of 31 March 1979 had increased by some \$36 million following transfers made since the inception of the policy. These costs were mostly salaries for public servants and allowances provided to bands for salaries. They represent a real overall increase of 44 per cent.

**6.79** We examined the cost impact in greater detail for the Social Services activity in the British Columbia region of the program. Our calculations revealed that transfer of program responsibility to bands resulted in cost increases varying from 75 to 150 per cent in the first year of transfer. At the time of our audit there was no evidence that the Department was aware of the \$36 million increase. The Department had not monitored these costs and could not explain the increases.

**6.80** The following may explain why costs have escalated:

- increased departmental workload to approve and effect transfers;
- increased requirement to provide advice to Indian bands;
- excessive overhead and/or direct administrative costs allocated to bands (these are calculated as a percentage of the program costs which are transferred);
- surplus staff undetermined by managers; and
- transfers approved before conditions were suitable, resulting in costly corrective measures.

**6.81** We did not examine the degree to which any single factor might have contributed to the cost increase; however, departmental managers indicated that, in their opinion, little net additional workload was involved. We concluded that a significant proportion of these additional costs could have been avoided by better planning and implementation procedures.

**6.82** Annual additional costs of \$36 million are significant and, we believe, confirm the requirement for improved planning and control.

**6.83**      *The Department should:*

- determine why administration costs associated with the transfer policy have increased;
- undertake an evaluation of the effects of the policy on program costs;
- using the results of the evaluation, establish a comprehensive plan to implement the policy, including forecasts of costs and person-years; and
- establish processes to control implementation of the policy against the plan.

**Program Evaluation**

**6.84**      The Indian and Inuit Affairs Program set up a program evaluation unit in 1976. That function is now reporting to the Corporate Policy Division and is empowered to carry out evaluations in all programs.

**6.85      Audit scope.** We assessed the extent to which DIAND had established satisfactory procedures to measure and report on effectiveness of programs, where it would have been reasonable and appropriate to do so. We audited the Indian and Inuit Affairs Program evaluation function against criteria developed by our Office and by the Office of the Comptroller General. The scope of our work included a review of program objectives and effects for departmental activities and a review of the procedures in place to measure and report the effectiveness of programs. This review was complemented by an in-depth examination of seven evaluation projects.

**6.86**      How funds should be used by the Department is determined in part by the formal direction given to DIAND by Parliament through the creation of appropriate laws. Where this direction is permissive, the objectives of the Department and its programs, as stated in the Estimates, specify how the funds should be used. In the case of the Indian and Inuit Affairs Program, only three per cent of its expenditures are specifically called for in the Acts which the Program administers. The balance is approved, on the basis of the Estimates, under the Appropriation Acts.

**6.87**      Other means that provide less formal direction to the Department include public statements and letters by government officials, debates of the House of Commons and its committees, and other published material.

**6.88**      These documents do not clearly set out the position the Department should take in its relationship with native people. In particular, they do not

specify whether public funds should be used by DIAND to seek economic and social gains for native people or whether DIAND should simply distribute these funds equitably to native people as they pursue their own objectives. We found that it was unclear whether public funds should be used to ensure that native people have access to goods and services similar to those enjoyed by Canadians in general or to ensure only that income support is provided to native people in the same way as it is given to other Canadians in need.

**6.89** This lack of specificity in the mandate of the Department has affected the actions and decisions of departmental managers. Resource allocation decisions were made on the basis of priorities determined by the Department, but the actual use to which these funds were put was not systematically controlled beyond ensuring that they went to the intended recipients. For example, contributions were made to Indian bands for specific purposes such as building a certain number of new houses. Once the contributions had been made, however, the Department did not systematically control how many new houses actually were built.

**6.90** Because the direction given to the Department concerning its relationship with native people had not been sufficiently clear to identify what it should be accountable for, it was reasonable to expect that departmental management would make its own assumptions in regard to the Department's mandate, develop corresponding objectives, goals and performance indicators, and seek approval for them. We found no evidence that the Department had taken these steps.

**6.91** In documents prepared by the Department for approval by Treasury Board, for publication and for internal planning, we did not find any statement or set of statements that specified clearly what socio-economic effects or what financial distribution results the Department, its programs or its managers were committed to achieve. In our opinion, the objectives and goals developed by the Department were not sufficiently clear to identify what DIAND is accountable for. Insufficient clarity in the direction given to the Department, combined with lack of direction within the Department, created a situation where, in our opinion, there was no clear basis for holding the Department to account for its use and management of public funds.

**6.92** The Department has begun to address this situation and is seeking clarification of its mandate in discussions with the Government and representatives of Indian and other native groups. In July 1980, the Department approved a Directional Plan containing objectives and goals that specify more clearly the long-term commitments for departmental programs.

**6.93 Program evaluation systems.** We assessed the work of the Department in the program evaluation area and found that, as exploratory studies, the work carried out by the Indian and Inuit Affairs Program was satisfactory. These studies identified clearly the scope and objectives of proposed evaluations,

examined the clarity and measurability of related program objectives, and provided direction for further evaluation work. They did not, however, measure the socio-economic effects achieved by program activities or the performance against program objectives. We found, as well, that departmental managers were not always using the results of the exploratory studies to improve programs or to modify delivery systems.

**6.94** The systems established to carry out evaluation work operated in a satisfactory manner. In some areas, such as the use of advisory committees and monitoring the implementation of recommendations, their practices were well advanced.

**6.95** *The Department should, after broadening the mandate of the program evaluation group to include all programs, ensure that:*

- *a comprehensive plan is prepared to complete exploratory studies and commence effectiveness evaluations where appropriate across the Department; and*
- *results of exploratory studies are used by managers to improve programs or modify delivery systems.*

#### **Internal Audit**

**6.96** During 1977-78, the Office of the Auditor General undertook a review of the internal audit function of DIAND as part of a government-wide study of internal auditing. The purpose of this study was to assess the extent to which government received value for money spent on internal audit activities. In our 1978 annual Report, Chapter 12, we set out standards that departmental internal audit groups should meet.

**6.97** In 1978 this Office reported to DIAND that the Department had not received value for money from its audit activities. The study disclosed that:

- the organizational status of Internal Audit was inadequate for the purposes of effective auditing;
- the audit scope was incomplete and was not being modified on an on-going basis to reflect the changing direction and needs of the Department; and
- the Department had not given sufficient direction to the Audit Services Bureau (ASB) concerning internal audits carried out by ASB on the Department's behalf.

**6.98** In April 1979, the Department appointed a new director of internal audit who was charged with establishing a new mandate and organization for the function. Currently, the Departmental Audit Branch is directing approximately 60 audit projects being carried out by ASB and outside accounting firms.

**6.99 Audit scope.** We reviewed the internal audit function to determine the extent to which the Department had addressed and corrected identified deficiencies. The scope of our work included a review of:

- organizational changes that had been made and the resulting reporting relationships;
- long and short-term audit plans prepared by the Branch;
- the mandate for internal auditing;
- minutes of Audit Committee meetings; and
- audit work carried out for the past year.

**6.100 Observations.** Since the appointment of the new director, the principal activity of the Departmental Audit Branch has been to determine and obtain approval for a new mandate and for short and long-term audit plans.

**6.101** The mandate was approved in February 1980. It clearly defines the Branch's responsibilities, has been effectively communicated and conforms with the procedures recommended by the Offices of the Comptroller General and the Auditor General.

**6.102** The Branch reports functionally to the Departmental Audit and Evaluation Committee. This committee was established in January 1980 and is chaired by the Deputy Minister. For resource management purposes, it reports to the Assistant Deputy Minister, Finance and Professional Services. This organizational arrangement provides a reasonable degree of independence and scope for the internal audit function. The Branch has prepared a five-year plan and annual plans for its audit activities. These were approved by the Departmental Audit and Evaluation Committee in May 1980. For the fiscal year 1979-80, the Branch also obtained approval for a \$1.1 million budget which included nine professionals, some of whom are still being recruited, and professional fees for audit work done through outside auditors.

**6.103** In our view the Branch has undertaken satisfactorily the planning work required to establish an acceptable organization for internal audit. It is proceeding with its approved audits for the current year.

## Electronic Data Processing

**6.104** Directives and guidelines for managing the EDP function are set out in the Treasury Board *Administrative Policy Manual*, chapter 440, dated December 1978. We examined the Department's new EDP policies and procedures and concluded that they adequately met and, in some cases, exceeded Treasury Board requirements. Similarly, they met the EDP audit criteria set out in Chapter 7 of our 1979 annual Report.

## Financial Controls

**6.105** The Department has devoted considerable effort during the last three years to improving its financial control systems. The Budgetary Control System (BCS) was introduced in 1978-79 and the Expenditure Accounting System (EAS) a year later.

**6.106 Audit scope.** Our audit included a general review of all financial systems. In each case, we examined the usefulness of the systems to departmental managers, the extent to which these systems complied with financial policies and regulations and, as applicable, the current status of implementation. We concentrated on three major areas: the expenditure and budgetary control systems, control over contributions to Indian bands, and control over the Indian Economic Development Account.

**6.107 Expenditure and budget control systems.** The two financial systems, BCS and EAS, have been implemented throughout the Department and, compared to past systems, have provided improvements in financial control. Generally, these systems were operating satisfactorily, ensuring that expenditures did not exceed allocations and that money was distributed as intended.

**6.108** A departmental study concluded that these systems can provide managers with the information required to fulfil their financial management responsibilities but that, in some cases, managers were not sufficiently aware of how these systems could help them in managing activities and resources or of what reports they could produce. As a consequence, use of the systems was limited. Our audit confirmed these observations and we support the departmental study's recommendation for additional training for departmental managers to ensure proper and full use of the systems in place.

**6.109 Control over contributions to Indian bands.** Since 1967, this Office has reported that controls exercised over contributions allocated to Indian bands represented a major weakness in the ability of the Department to provide an accounting to Parliament. During our audit, we reviewed the Department's policies and procedures relating to contribution arrangements with bands, the accounting methods used for recording these contributions, and the practices used to monitor the use of these moneys by Indian bands. The level of contributions to Indian bands in 1979-80 was more than \$300 million.

**6.110** Despite numerous attempts by the Department, a uniform agreement between the Department and the bands that specified the purpose of the contributions and the responsibilities of the parties involved had not been implemented. A detailed agreement was drawn up in 1979; however, it generated considerable controversy, resulting in the Department granting contributions without signed agreements. A revised, less legalistic agreement was developed which the Department believed to be more sensitive to the needs of Indian bands. It did not specify clearly, however, how the Department would monitor the use of these contributions.

**6.111** There was little improvement in 1979-80 in controls exercised over the use of contributions by Indian bands. In many cases, managers were not aware of how many band financial statements had been audited or whether the audit opinions were qualified or denied. Monitoring during the year was carried out on an ad hoc basis, and we found that contributions continued to be paid even though bands did not properly account for the moneys they received.

**6.112** The Department has commented that it requires considerable flexibility when administering contributions to bands. The Department also makes the point that the control mechanisms necessary to meet Treasury Board requirements may be beyond the current administrative capability of many bands. This suggests that an examination should be made of the appropriateness of the present controls and of the funding method itself.

**6.113** Given the persistent problems encountered by the Department in developing and implementing controls over the use of contribution moneys, together with the number of unsuccessful attempts to develop and implement satisfactory agreements, the Department has taken the initiative of developing funding mechanisms more compatible with the background and administrative capabilities of individual bands. This is a positive step, provided that there is a suitable mechanism to ensure accountability for the use of the funds.

**6.114** *The Department should develop accountability processes appropriate for different funding methods and different means of program delivery, and seek authority to choose those best suited to the needs of individual bands.*

**6.115 Indian Economic Development Account.** The purpose of the Indian Economic Development Account, as set out by the Appropriation Act, is to provide loan guarantees and direct loans to fund potentially viable business and employment opportunities for Indians. To date, some \$81 million has been loaned and, at 31 March 1980, the principal outstanding was \$52.3 million.

**6.116** We reviewed the extent to which improvements in the management of the Account by the Department had occurred following the comments contained in our 1978 Report (paragraph 21.5) on the inadequacy of accounting and control procedures in the Account.

**6.117** Our audit confirmed that serious weaknesses remained in the administration of the Account. These had been identified in six previous departmental studies and included the following:

- The actual use of the Account created uncertainty as to whether its role was to finance potentially viable business projects, create short-term jobs, or provide a training ground for native entrepreneurs.
- Responsibility for the performance of the Account was not specifically assigned.
- Project monitoring was limited and results indicated that it was carried out more to support business development projects than to ensure that loan agreements and project parameters were complied with.
- Accounting procedures had not been developed, loan files were not updated, outstanding balances were not reconciled to the Department of Supply and Services (DSS) control account, interest was miscalculated, and arrears were not known.
- Policies and procedures specifying collateral requirements, collection methods and conditions for recovery action had not been established.
- Policies and procedures for administering guaranteed loans had not been developed.

**6.118** The Department has requested Treasury Board approval for the write-off of \$17 million of the loans. The Department has not specified what would be a reasonable loss ratio, given the purpose of the loans. In our view, a significant portion of these proposed write-offs stems from the Department's inadequate management of the approval of loans, monitoring of projects and collection of loans and its lack of attention to financial controls and systems associated with receivables.

**6.119** Since 1972, the Department has spent \$1.4 million in three unsuccessful attempts to develop computerized systems to provide management information and assist in the control of the Account. It should be noted that these projects were attempted before the new procedures for EDP systems development had been introduced. Documentation related to these projects was limited, but the papers we reviewed and the interviews we carried out indicated these failures were likely caused by inadequate managerial control over the projects and lack of participation by departmental financial officers.

**6.120** The complexity of the environment in which DIAND operates does not justify the absence of basic accounting and financial controls. Even allowing for

unusual difficulties in collection, we found no reason why known difficulties could not be resolved successfully. We concluded that the Department did not have adequate controls over the Account.

**6.121** The Department has recognized these long-standing weaknesses and, in 1979, initiated steps to rectify some of them. It is now following improved practices in approving loans, computing interest, and reconciling outstanding balances with the DSS control account. These are positive steps that will assist the Department in improving the management of this asset. Much remains to be done, however, before effective control can be said to exist.

**6.122** *To improve its management and financial control over the Indian Economic Development Account, the Department should:*

- *review the need for and agree on the role of the Account;*
- *appoint a person to be directly responsible to manage the Account and to be accountable for its performance;*
- *develop and implement loan approval, collection, recovery and write-off policies; and*
- *develop policies and procedures for administering guaranteed loans.*

### **Payroll Costs Management**

**6.123** In 1978-79, a review of payroll costs management in the Department was undertaken as part of a government-wide study conducted by the Office of the Auditor General. The Estimates for 1979-80 included a proposed personnel expenditure of \$158.7 million out of a total budget of \$1,155.6 million.

**6.124 Audit scope.** Consistent with the government-wide study, we concentrated our efforts in three functional areas within the payroll costs management activity: manpower planning; training and development; and human resource information systems. In the area of manpower planning, we examined the Department's systems for determining how many employees it will require and their availability, and for planning to meet short-falls. Our audit of training and development included a review of systems and procedures used to plan and budget for training, to provide it and to assess results. We reviewed human resource information systems to see if management's information needs were being satisfied and to determine whether the cost of information was justified by the benefits received.

**6.125 Observations.** The Department had carried out reasonable manpower analyses for the Executive (SX), Personnel (PE) and Financial (FI) categories of

employees. No analysis had been carried out for other employee groups, which represented 90 per cent of the total. The impact on personnel requirements of the policy of transferring delivery responsibilities to Indian bands is that both the number of public servants and the skills they require are changing and will continue to change over time. In our opinion, this area of change is clearly one on which manpower management efforts should be focused.

**6.126** The required manpower plans could not be developed, however, because program managers had not forecast the program activities that were likely to be transferred to Indian bands or when they would be transferred. As a result, managers were not prepared to handle skill shortages or to deal with staff surpluses. This undoubtedly contributed to the increase in administrative person-years between 1974 and 1980.

**6.127** The Department has been preparing annual training and development plans based on priorities identified by the Deputy Minister. These plans have been implemented and monitored; however, they did not reflect the needs arising from the Department's transfer policy. In addition, financial systems did not segregate all training and development costs. We estimated the expenditures for this activity to be at least \$4.8 million in 1977-78; this amount compares with \$2.9 million identified by the Treasury Board based on departmental data. The difference can be explained primarily by the fact that the Treasury Board does not obtain complete data from the Department.

**6.128** Even if the Department had attempted to develop more complete manpower plans and training and development programs, it would have been hampered by major inadequacies in its human resources information systems. Of these, the Department Personnel Information System (DPIS), developed by the Department, costs \$400,000 annually to operate. We found that managers were not aware what reports the system could produce. Only two of nine regions had complete and reasonably accurate files. Reports were produced using numerical codes which users had to interpret using a coding manual. In our opinion, the Department was not obtaining value for money from the operation of this system.

**6.129** Since our audit, the Department has drafted a personnel management planning policy and has developed procedures for implementing this policy. The Department has also developed new training policies and procedures that will integrate manpower planning and training and development. Training and development costs can be recorded and retrieved more easily and some modifications have been made to the Departmental Personnel Information System.

**6.130** The success of these endeavours depends on concentrating improvement efforts in specified key groupings of employees such as executives, native employees, band advisers and teachers. To do otherwise may dilute efforts and make it more difficult to obtain continued support from operating units.

**6.131** · *The Department should:*

- analyse the effect of the transfer policy on the number and qualifications of departmental employees required in each region;
- identify those groups of employees for which there is greatest need for improvements in manpower planning and training and development, and concentrate its efforts in these areas; and
- improve its personnel information systems and up-date employee files, giving priority to the key groups.

### **Indian Band Funds**

**6.132** **Introduction.** On 15 November 1979, an order was passed by the House of Commons under the provisions of Standing Order 43 stating:

That the Auditor General conduct an audit of individual Indian trust accounts administered by the Minister of Indian Affairs and Northern Development and provide reports to this House.

**6.133** The Indian Band Funds are held in the Consolidated Revenue Fund and administered in accordance with the Indian Act. As prescribed in Section 61(2) of the Indian Act, they receive interest from the Government of Canada at a rate fixed by the Governor in Council. Over 2,000 Indian reserves, held in trust for 573 Indian bands, represent the asset base from which revenues for the funds are derived.

**6.134** There are 573 individual Band Funds, each divided into two accounts -- a capital account and a revenue account. The Indian Act defines capital moneys as "all Indian moneys derived from the sale of surrendered lands or the sale of capital assets of a band". The Department has interpreted this to include the sale of land, timber and gravel, or the exploitation of oil and gas. The Act states that "all Indian moneys other than capital moneys shall be deemed to be revenue moneys of the band." Indian moneys are defined in the Act as "all moneys collected, received or held by Her Majesty for the use and benefit of Indians or bands".

**6.135** Up to 1973, the year-end balances of the Indian Bands Funds never exceeded \$35 million. They then rose sharply as a result of oil and gas revenues. At the close of the fiscal year 1979-80, the balances totalled \$267 million, comprising \$236 million in the capital accounts and \$31 million in the revenue accounts. Oil and gas royalties and bonuses make up 99 per cent of receipts for the capital accounts and interest makes up 66 per cent of receipts for the revenue accounts. Each year, disbursements to Indian bands have been approximately equal to the receipts recorded in the capital and revenue accounts of the prior year.

**6.136** In accordance with the provisions of the Consolidated Revenue and Audit Act, S.C. 1931, c.27, we examined and reported to the House of Commons on the Indian Band Funds for each fiscal year from 1931 to 1951. In 1951, this Act was replaced by the Financial Administration Act, S.C. 1951, c.12, which contained no such provision for examination and reporting by the Auditor General, although the Band Funds in total were reviewed each year in conjunction with the audit of the accounts of Canada.

**6.137** In complying with this request from the House of Commons it was our intention to address the transactions recorded in the capital and revenue accounts during the current year and, to the extent possible and practicable, transactions of prior years.

**6.138 Receipts and disbursements, 1979-80.** In examining transactions for the current year, we assessed the systems and procedures used by the Department to ensure that receipts and disbursements recorded in both capital and revenue accounts were properly calculated and recorded. We also tested a sample of transactions to ensure that they were properly recorded and in compliance with relevant legislation and regulations.

**6.139** The system and procedures appeared satisfactory for proper accounting of receipts and disbursements for both the total Funds and for individual trust accounts. However, our sample of transactions was designed to assess only the accounting for the Funds taken as a whole. Based on this sample, in our opinion the receipts and disbursements for the year 1979-80 were properly recorded, in compliance with relevant legislation and regulations. To express an opinion on the receipts and disbursements of the 1,146 individual trust accounts would require a much larger sample of transactions, and auditing such a sample would require additional costs of approximately \$1.3 million for 1979-80 alone.

**6.140** The question of whether the Band Funds have received all the revenue due to the bands is a separate issue. We found that the Department had not verified oil and gas royalty payments from producers. While all such payments received have been recorded in the accounts, there was no assurance that the payments represented all amounts to which the bands were entitled. In recognition of the importance of this weakness, the Department engaged a firm of chartered accountants to examine the production and sales records of the producing companies. Using a statistical sample selected by us for the fiscal year 1979-80, the accounting firm conducted a series of tests and examinations agreed to by us. Based on the audit findings within the sample selected, it is our opinion that the oil and gas royalty receipts for 1979-80 agree with records maintained by the producing companies.

**6.141 Previous years.** The Departmental Indian Band Funds records for previous years were unauditible, either because they were inadvertently destroyed as was the case for 1965-66, or because extraordinary effort would be

required to make them available. This is particularly true for land transactions, the records for which are maintained by property rather than by band. The Department advises us that systems are being developed to prepare land asset statements for individual bands.

**6.142** Even when the documentation is complete, however, only the authorization for and accuracy of land transactions will be verifiable. It will remain virtually impossible to verify the adequacy of systems that were in place over the period, and it would be inappropriate to express an opinion on the justification of each land transaction and the related compensation.

**6.143** Based on our audit to date, we are of the opinion that extending our audit sample for 1979-80 would not likely alter our opinion that receipts and disbursements for that year are complete and recorded properly. With regard to previous years, the present availability of departmental records is such that our audit would be at best inconclusive, but nevertheless very costly. In our opinion, incurring such costs would not be justified.

**6.144** At this time, we wish to inform the House of Commons that in view of these observations, we are not planning to proceed with the audit of the individual trust accounts or audits of the accounts for prior years unless directed to do so.

**Summary of Recommendations and Department's Comments**

*Recommendations*

*Department's Comments*

**Reporting to Parliament**

**6.52** The Department should categorize and group program activities information in the Estimates to reflect the intended results and group sub-activities in terms of their contribution to these results.

Agreed. The Department's programs and activities should be structured to more adequately reflect the planning and costing of outputs.

**6.55** The Department should ensure that all capital projects listed in the Estimates are accounted for in the Public Accounts, to indicate actual spending against plan.

Agreed.

**Planning and Control**

**6.68** The Department should ensure that:

- the purpose of planning is defined, communicated and understood throughout the Department; Done.
- the expected content and scope of plans for the Department, its programs and field offices are defined and understood; Done.
- roles and responsibilities of managers and support staff, as they relate to planning, are defined and understood; Done.
- work programs and schedules for planning are prepared; and Done.

<i>Recommendations</i>	<i>Department's Comments</i>
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- a planning officer is appointed to co-ordinate the conduct of these tasks.

Done.

### **Transfer of Program Delivery Responsibilities to Indian Bands**

**6.77** The Department should complete and implement its national operating guidelines associated with the Social Services activity and develop similar guidelines for other activities.

**6.83** The Department should:

- determine why administration costs associated with the transfer policy have increased;
- undertake an evaluation of the effects of the policy on program costs;
- using the results of the evaluation, establish a comprehensive plan to implement the policy, including forecasts of costs and person-years; and
- establish processes to control implementation of the policy against the plan.

Agreed. Underway in social assistance and educational activities.

Agreed.

Agreed.

Agreed. Plans are now being developed.

Agreed.

### **Program Evaluation**

**6.95** The Department should, after broadening the mandate of the program evaluation group to include all programs, ensure that:

<i>Recommendations</i>	<i>Department's Comments</i>
<ul style="list-style-type: none"><li>- a comprehensive plan is prepared to complete exploratory studies and commence effectiveness evaluations where appropriate across the Department; and</li></ul>	Done.
<ul style="list-style-type: none"><li>- results of exploratory studies are used by managers to improve programs or modify delivery systems.</li></ul>	Agreed.
<b>Financial Controls</b>	
<b>6.114</b> The Department should develop accountability processes appropriate for different funding methods and different means of program delivery, and seek authority to choose those best suited to the needs of individual bands.	Agreed. Underway.
<b>6.122</b> To improve its management and financial control over the Indian Economic Development Account, the Department should:	
<ul style="list-style-type: none"><li>- review the need for and agree on the role of the Account;</li></ul>	Agreed. Underway.
<ul style="list-style-type: none"><li>- appoint a person to be directly responsible to manage the Account and to be accountable for its performance;</li></ul>	Agreed.
<ul style="list-style-type: none"><li>- develop and implement loan approval, collection, recovery and write-off policies; and</li></ul>	Agreed. Under development.

*Recommendations*

*Department's Comments*

- develop policies and procedures for administering guaranteed loans.

Agreed. Discussions have been held with Central Agencies.

### **Payroll Costs Management**

**6.131** The Department should:

- analyse the effect of the transfer policy on the number and qualifications of departmental employees required in each region;
- identify those groups of employees for which there is greatest need for improvements in manpower planning and training and development, and concentrate its efforts in these areas; and
- improve its personnel information systems and update employee files, giving priority to the key groups.

Agreed.

Agreed.

Agreed. Underway.



**DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE**



## **DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE**

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## DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

### Introduction

**7.1** We conducted our audit of the Department of National Revenue - Customs and Excise over a three-year period. In our 1978 and 1979 Reports (Chapters 18 and 15 respectively), we presented our findings on the Department's principal revenue collection operations. This Chapter presents the findings from our work done in the final year of the three-year cycle. It deals primarily with the Department's efforts to improve its management and operations.

**7.2** We would like to record our appreciation for the co-operation of the Department's executive and staff throughout the three years of our audit work.

### The Department

#### The Need for Change

**7.3** To place them in their proper perspective and help gauge their significance, our audit approach, findings and conclusions should be considered in relation to the Department's changing environment. The overall organization and operating environment of Customs and Excise have been described in detail in previous Reports. This section provides an overview of internal and external factors which gave rise to the need to improve management control systems and change operating procedures, the effects of the operating environment on achieving improvements, and the extent of the departmental effort to bring about change.

**7.4 Internal factors.** The need for improvements in management systems and controls was evident in the findings of the Financial Management and Control Study (FMCS) carried out by this Office during 1974 and 1975. Although FMCS was primarily expenditure oriented, it disclosed a high degree of fragmentation among different branches and between regions and headquarters. The findings indicated that decentralization undertaken earlier had not been accompanied by adequate accountability, reporting and control. As a result, senior management's ability to plan, direct, monitor and control the Department's operations had been adversely affected.

**7.5 External factors.** Evolving technology has created, and increasingly creates, challenges and opportunities for Customs and Excise. Computerization demands changes in auditing techniques and offers the possibility of new tools for the Customs inspector and the Excise auditor. Containerization increases the cost of physically inspecting cargo, both to the Department and to the importing public. Changes in traffic patterns require resource allocation decisions and

larger, faster conveyances cause peak workloads over short periods of time while the Department's public expects better and faster service. The volumes that the Department is called upon to deal with are increasing during a period of government resource restraint. Traditional Customs and Excise methods and procedures, which have their foundation in the business practices of the past, need to be adapted to these realities.

**7.6** Currently, the Excise Branch is attempting to expand its use of the computer to improve the management of information, allowing it to concentrate its resources more productively through better audit planning and selection. The Customs Branches are experimenting with changing from transaction-based control, carried out at the country's borders and a limited number of sufferance warehouses, to systems-based control, supported by computer selection and other techniques, which will permit control to be exercised at importers' premises as well as at the borders and at sufferance warehouses.

### **The Effect of the Operating Environment**

**7.7** Our earlier Reports described the conflict that exists between the Department's need for control to enforce its mandate and the public's desire for responsive service. This, together with the cost and inconvenience that changed procedures may cause the public, constitutes an external pressure on the Department which tends to restrict its ability to modify or withdraw changes once they have been implemented. Because of this influence, the Department must give careful consideration to the selection, design and testing of proposed changes which may be attractive to the public but which may weaken control.

**7.8** The task of implementing planned changes is further complicated by the Department's size and geographic dispersion. Getting changes accepted and implemented by a staff of approximately 10,000 persons requires that attitudes and work habits be successfully modified to accommodate procedures and practices designed to bring about improvements. This represents communications and training and development challenges of a high order. In addition, most members of the senior management group, having backgrounds outside the Department, have been faced with the task of acquiring and developing the knowledge about Customs and Excise necessary to deal effectively with the Department's highly complex operations and environment.

### **Strategy for Improvement**

**7.9** Recognizing internal weaknesses and a complex and changing environment, the Department accepted the need to improve its management control systems and operating procedures. Accordingly, Customs and Excise developed a three-phased strategy to review and improve organization, management control systems and operations. These closely interlinked phases were as follows:

- Phase One - The organization review: A restructuring of headquarters functions, a consolidation of scattered functional groups, and changes in both the senior management team and the committee structure.
- Phase Two - The management review: The development of management control systems for planning and controlling progress toward objectives. This included strengthening financial controls, introducing a planning process to ensure that goals and objectives were clearly stated and that responsibility for achieving them was clearly identified, and building an information system capable of monitoring progress toward the stated goals and objectives.
- Phase Three - The review and improvement of operations: The development of more effective, efficient, responsive and sensitive Customs and Excise operations, making use of up-to-date technology.

The process of implementing these phases is still under way with completion planned for 1983-84.

### **Audit Scope**

**7.10** The most conclusive report that could be made to the House of Commons would confirm whether the Department's efforts had resulted in improvements in overall efficiency and effectiveness. Since the implementation of the Department's strategy, particularly Phase Two, was not complete, such a confirmation was not practical. Instead, we concentrated on the process by which changes are being introduced in the Department, considering criteria based on standards previously published by this Office, which are compatible with those defined by the Department and by Treasury Board guidelines for project management.

**7.11** Primarily, our audit addressed Phases Two and Three of the Department's improvement process. We recognized that organizational changes in Phase One may have been a prerequisite to improving other areas; however, we concluded that observations concerning these changes could best be combined with our comments on the changes in management control systems which the organization changes were designed to facilitate. We concentrated our audit work in the areas described in the following paragraphs.

**7.12 Phase Two - the management review.** The need for a re-definition of the role of the financial function was an important finding of our Financial Management and Control Study. We reviewed the reorganization of the financial function and the training and development of financial officers to assess the process by which this change was being effected.

**7.13** With respect to management control systems, we reviewed the status of the Department's planning and information systems to determine their current capacity to assist managers in planning, monitoring and controlling the Department's process of change toward improved operational efficiency and effectiveness.

**7.14 Phase Three - review and improvement of operations.** We reviewed the planning, control and implementation of changes in operational methods and procedures and the Department's capacity to assess the impact of these changes on its operations. To do this, we reviewed previous practices in introducing changed operating procedures, as evidenced by the introduction of the Examination, Release and Appraisal (ERA) system for Customs appraisal and in the original development of the Cargo Entry Processing and Collection System (CEPACS) to establish a benchmark. We compared these with the more current practices of the respective branches, as evidenced by the Customs Branches' further implementation and development of CEPACS and by the process by which audit selection and planning methods are being improved in the Excise Branch. Because of the complexity and risk inherent in the environment and the far-reaching nature of changes contemplated, especially in Customs, we paid particular attention to the methods by which such modifications were selected, assessed, developed, tested and implemented. We wished to establish whether the process by which such changes have been introduced had improved over time.

**7.15** To determine the extent to which its work might affect the scope and timing of our own, we reviewed the Department's internal audit function. Because of differences in approach and objectives, we were unable to use the work of Internal Audit in the area of the process of change in which the Department is engaged. We were able, however, to use its work in following up previously identified system deficiencies in control over expenditures. In addition, we reviewed the progress of Internal Audit in resolving weaknesses noted in our previous Reports. We noted that some improvement had been made and that efforts were continuing to resolve these weaknesses.

**7.16** We interviewed personnel at all levels at the Department's Headquarters and in the Toronto and Montreal regions. In addition, we examined supporting documentation and studies carried out by departmental personnel and external consultants. We also reviewed internal audit reports and files and previous work done by this Office. The audit was conducted during the period from December 1979 to July 1980.

**7.17** Our tests were not designed to uncover specific instances in which error, fraud or abuse may have occurred, nor were they designed to determine the impact of specific operational changes on the efficiency and effectiveness of operations.

## **Audit Observations**

### **Management Review - Financial Management**

**7.18** One of the key findings of this Office's Financial Management and Control Study was that the role of financial officers was not clearly defined and understood in the Department. We reviewed departmental action taken to clarify their role and to provide appropriate training to them. We also examined the current status of controls over payroll, the Department's largest expenditure.

**7.19 Role of financial officers.** In 1976, the Department formed a task force to provide an appropriate organization framework for the financial function and to improve internal controls. As a result of the work of this task force, the Department has re-defined the role of its financial officers and has redrawn job descriptions at Headquarters and in five regions. The Department has still to effect the intended organization changes, including re-defining reporting relationships between regional financial officers and regional line managers, in a further eight regions. In some of these eight regions, the Department has taken steps to upgrade the quality of financial expertise available to regional line managers through staffing administrative positions with officers who have financial experience.

**7.20** At the time of our audit, neither formal implementation plans nor target dates existed for effecting changes in the remaining regions. Although there have been a number of factors, such as a proposed reorganization of both operating branches, that made development of an appropriate reporting relationship more difficult, we were unable to find evidence of either a plan to address the implications of those factors or formal consideration of alternative means of providing financial expertise in the remaining regions. We were also unable to find evidence of a formal plan for evaluating the effect of changing the role of financial officers.

**7.21 Training and development of financial officers.** The Department has increased its efforts in the training and development of financial officers, including appointing a financial training co-ordinator, identifying individual training needs as part of the staff appraisal process, providing training sessions, and participating in central agency development programs. These efforts could be improved by developing means to ensure that identified training needs of regional financial officers and other regional personnel involved in the financial function are consolidated and reviewed in terms of emerging department-wide needs. The Department has recognized this problem and is considering appropriate means.

**7.22 Financial controls.** In following up the findings of our previous work to assess improvements in controls over payroll, we reviewed the degree to which the findings made by FMCS in 1975 and the Computer and Information Systems Evaluation (CAISE) study in 1976 had been addressed. We found that, although the Department had taken action to address some of the weaknesses noted, a 1980

internal audit of payroll expenditures disclosed that some key deficiencies in payroll controls had yet to be resolved. These deficiencies included improper authorization of pay forms, inadequate control of overtime payments, and a lack of supervision, segregation of duties and reconciliation of control totals. The Department had intended to combine action to resolve these remaining weaknesses with implementation of Treasury Board recommendations for payroll organization issued in 1977. When the Treasury Board requested deferral of implementation of their recommendations in 1978, the Department deferred action both on the Treasury Board recommendations and on its own control improvement.

**7.23 Summary.** The Department has undertaken a series of initiatives to respond to identified deficiencies in the role of financial management and has effected improvements at Headquarters and in some regions. However, we were unable to find an overall plan designed to co-ordinate and evaluate the progress and effect of the actions. We are concerned that the absence of such overall plans may adversely affect the implementation of desired improvements in the remaining regions.

#### **Management Review - Management Control Systems**

**7.24** In 1976, the Department began a comprehensive review of its management control systems. Systems have been and are being developed to inform management of the Department's status, direction and progress. The Department described the two main components of the systems as:

- a results-oriented planning process to help senior management to communicate objectives and goals and to enable their subordinate managers to show how their planned activities and results contributed to the achievement of these goals; and
- a reliable system of departmental information that would permit managers to measure actual results against their plans.

**7.25** We reviewed these planning and information systems to assess their current ability to help managers in improving operational efficiency and effectiveness.

**7.26 Planning.** The Department has recognized the need for proper planning as an important step in the direction of improved management. Progress has been made toward the creation of sound planning practices by introducing, in 1977, a modified planning process and by providing planning methodology in the form of frameworks, guidelines, environmental and business forecasts, and planning cycle schedules.

**7.27** As a result of ongoing evaluations of branch planning submissions, the process has been refined annually to meet better the needs of the Department.

**7.28** Significant difficulties, however, remain to be resolved in the application of these processes. Managers and their staffs have so far had limited and varied success in interpreting departmental objectives and goals and have found difficulty in specifying the outcome of their activities in a way that would permit linking them to the Department's goals and objectives. For example, the Department has established as a goal a specific annual percentage increase in productivity from 1980 on. However, managers experienced difficulty in specifying productivity targets in their plans. The Department, recognizing this difficulty, has carried out a study to clarify the meaning of productivity in the departmental environment. In addition, the program structure is under study with a view to improving the linkage between activities and goals.

**7.29** Further, some managers have expressed reservations about the planning process in its present state of development and implementation. They perceive it as being too slow and cumbersome to assist them in planning their activities.

**7.30** Although these difficulties may stem from the fact that the planning process is still being developed and improved, they may also be the result of the fact that formal training in how to use the planning process and adapt it to their needs was not provided to managers. For the most part, managers did not request such training.

**7.31** In summary, the Department has set up a planning process designed to produce clear statements, which can be monitored, of the results for which managers are to be held accountable in support of departmental goals. Although the application of this process has not yet been fully successful in producing such statements, the Department is attempting to resolve identified problems.

**7.32** Plans are only one link in the accountability chain. Before they can be used fully as a basis for management control over achievement of results, they must be linked to accurate, timely and reliable information which is compatible with the statement of desired results set out in the plans.

**7.33 Information systems.** Customs and Excise administers the law on its own behalf and on behalf of other departments. One of its most important functions is the collection of the correct revenue. Other services relate to exercising control over the international movement of people and goods. The Department's major information need is for data concerning the level of compliance with the law and the cost of achieving compliance.

**7.34** The Department also needs other qualitative and quantitative measures for assessing performance. Qualitative measures should provide an indication of how well specific activities are performed; for example, accuracy of assessments, thoroughness of inspections or accuracy of travellers' declarations. Quantitative measures give information on the number of activities performed; for example, the number of assessments processed, inspections performed or travellers processed. Without qualitative measures or estimates, there is a danger that attention to quantitative measures alone may result in unintended and possibly undesirable effects. Apparent improvements in output may mask deterioration in the quality of work being performed.

**7.35** In our 1978 Report, we commented on the need for measures of performance. We stressed that, for an enforcement agency, such measures should include an estimate of total non-compliance as well as information regarding detected non-compliance. For example, with respect to the collection of revenue, this entails knowledge of the difference between the amount of revenue that should have been collected under the law and the revenue actually collected (the revenue gap). We demonstrated one method of estimating the revenue gap in the assessment function and suggested that similar methods might be applied to other areas. Our 1979 audit of Excise revealed a similar measurement need in relation to excise tax collection, and we recommended that the Department explore measures based on extrapolating the results of audits.

**7.36** Although the Department accepted the need for such measures, there was a lack of consensus within Customs and Excise concerning the methodology required to measure the revenue gap. In 1980, the Department began a study of the problems involved.

**7.37** Some of the operational problems that must then be overcome in designing, implementing and using level-of-compliance indicators are illustrated by the history of a measurement system established in 1976 to monitor the effectiveness of Customs passenger inspection services. In 1979, an inter-departmental project team, attempting to evaluate alternative inspection procedures, concluded that the data generated were not accurate and could not be used as a basis for comparing the effectiveness of alternative procedures.

**7.38** The team found that, because of the impact of the additional work required to meet the needs of the measurement system, employees did not carry out the required sample examinations, particularly during peak work periods. As a result, the team concluded that the results obtained were unreliable.

**7.39** These factors highlight the importance of considering all facets of the operating environment in which a system is to operate, including such factors as impact on workload and peak periods, and ensuring that employees understand and are committed to the objectives of a system.

**7.40** To measure or estimate its operational effectiveness, the Department must first gain consensus on the technical approach to be taken and resolve difficulties such as gaining employee commitment and problems caused by the operating environment. Without such measurements or estimates, Customs and Excise will be unable to determine the overall effect of operational changes.

**7.41** The Department recognized that information available to management was insufficient to provide complete and reliable data on its operations. Realizing that specific modification and expansion of existing systems were not sufficient, the Department, in early 1978, set up a project team to catalogue existing information systems, identify their shortcomings and determine the types of information required by managers on a department-wide basis. In 1980, senior management approved plans, based on the study's report, which detailed an integrated information system network, required systems, and a co-ordinated development and implementation plan for the required systems. In addition, interim steps have been taken to expand the flow of information available to managers.

**7.42** Responsibility for the more detailed design and development of the specific high and medium-priority systems is assigned to the individual branches and development and implementation will take place over the next five years. Until development and design of the individual systems are complete, it will not be possible for us to assess whether specific measures that will be generated will satisfy the need for both qualitative and quantitative measures.

**7.43** The Department has undertaken to put management control systems in place which can be used to specify goals and produce information for measuring progress against those goals. Until this work is complete, the Department's existing management control systems will continue to be limited in their usefulness. In the meantime, the Department is faced with the problem of responding to its need for operational changes.

**7.44** Management decisions are necessarily made on the basis of interpretation of available information that is often incomplete and inaccurate, supplemented by special purpose evaluations and investigations. We therefore paid particular attention to this type of evaluation when reviewing the process by which operational changes are made.

### **Operational Changes**

**7.45** In our review of changes in operational methods and procedures, we concentrated on the process by which such changes are planned and introduced. We wished to determine the current status of control over such changes and whether there had been improvement in this control. We reviewed and compared earlier practices, as illustrated by the introduction of ERA and the initial introduction of CEPACS, with more recent practices as illustrated by continued development of CEPACS and refinements to Excise audit selection methods.

**7.46      Earlier systems changes.** The Department recognized that, in the past, there were deficiencies in the manner in which changes had been introduced. These deficiencies included inadequate definition of the objectives of changes, poor evaluation of the success of changes and lack of central control over implementation.

**7.47**      As an example of earlier systems changes, we interviewed managers and reviewed documentation concerning the 1976-77 introduction of the Examination, Release and Appraisal system (ERA). The system had been conceived in the early seventies as an approach to handling increased volumes and improving revenue assessment by allowing inspectors to concentrate on the physical inspection of cargo and specialists to concentrate on appraisal. Previously, these functions had been carried out by the same official. Problems of design and control encountered in ERA included the following:

- Attainment of the objective of having inspectors specialize in physical examination of cargo was hampered because inspectors were still required to appraise low value shipments. As a result, the inspectors continued to devote a significant portion of their time to paperwork.
- The evaluations performed in the pilot project concentrated on the system's capacity to generate additional revenue. However, the specific measures established for the purpose of the evaluation of the new system did not provide a realistic comparison with the system it replaced. ERA did provide an accessible record of the additional revenue demanded as a result of appraisal that previously had not been separately identified in the total revenue stream. As a result, comparisons based on the amount of recorded additional revenue favoured the new system. Further, the evaluations did not allow a determination of whether additional revenue generated arose as a result of changing the procedures, increasing staff levels to operate the changed procedures, or external factors.
- These evaluations did not address the system's success in terms of its other objectives which included improved control and faster release times.
- Problem areas identified during the pilot project were not resolved before national implementation of the system. These problems included inefficient document handling procedures, the possibility that ERA would lead to delayed payment of duties, and inadequate communication between inspectors and appraisers.
- Because national implementation plans did not include adequate provision for a post-implementation review, data essential to the performance of such an evaluation had not been gathered. Therefore, although such a review was considered after implementation was complete, it was not carried out.

**7.48** As detailed in our 1978 Report, similar factors were also evident in the problems encountered in the conception and introduction of the Cargo Entry Processing and Collection System. We recommended that the Department carry out a cost-benefit analysis of CEPACS and answer the questions raised by its own criteria before proceeding with further implementation.

**7.49** In summary, when major changes in operational methods and procedures were introduced, system design and development procedures were not sufficiently rigorous, implementation was not adequately supervised, and the impact of proposed changes was inadequately evaluated in terms of efficiency and effectiveness. Although these specific examples relate to the Customs Branches, the Department acknowledges that the same general factors affected the introduction of changed operating procedures in the Excise Branch.

**7.50 More recent changes.** As part of its efforts to improve control over the planning, implementation and evaluation of changed systems and procedures, the Department introduced a project planning approval and control system in 1976. Because of operational difficulties encountered in this system, it was significantly modified, adopted on a provisional basis in 1979, and formally adopted in 1980. In its current state of development, the project control system is intended to improve the control over project planning and implementation and to improve the accountability of managers. The Department is making further improvements to the system, particularly by refining criteria for the application of the reporting requirements to individual projects and clarifying reporting channels for project managers.

**7.51** At the time of our audit, there was no complete and timely reporting of costs and results for all key projects. In addition, the personnel responsible for the design and development of the system expressed concern about the varied levels of project management skills possessed by branch personnel.

**7.52** The Department is taking action to solve these problems by providing training for project managers on the application of the policy and related project management techniques.

**7.53** Although the Department has experienced some problems in the application of project management techniques, the project management and control system did require managers to adopt a more formal approach to introducing changes. Managers were required to define the problems being addressed by proposed changes, specify the objectives to be achieved and the criteria to be used in evaluating achievement, consider alternative solutions, evaluate results, and present full information to decision makers.

**7.54** To establish the extent of the Department's improvement in performing the steps required by evolving project management policy, we reviewed a

sample of projects that were being conducted in the Department. In the Customs Branches, we selected the continued implementation and development of CEPACS as being of major significance, given that most of the proposed changes to the customs process are based on or involve CEPACS. In the Excise Branch, we reviewed the current status of proposed improvements to audit selection and planning methods.

**7.55 Systems changes in Customs Branches.** We did not look for application and documentation of all the steps that would have been required by the Department's project management process for work done up to 1978, since it would not have been reasonable for the Department to apply these steps retroactively. However, because the Department has recently decided to implement the system nationally -- initially as a core system to which additional design features are to be added as completed -- we expected, and therefore looked for, the application of appropriate steps in the installation of the CEPACS core system in the Toronto area in the period 1978 to 1979.

**7.56** We reviewed control exercised over implementation, specification of criteria against which the system was to be assessed, definition of indicators of performance for those criteria, and design of the evaluations carried out in Toronto.

**7.57** We found that the Department had devoted considerable effort to planning and controlling the implementation of the CEPACS core system in the Toronto region. Implementation proceeded according to plan and the bottlenecks and implementation problems that had been experienced in the Montreal region did not recur in the Toronto region.

**7.58** We found that the Department had identified criteria that called for assessing the impact of the total system in such areas as:

- time taken to release cargo to importers;
- accuracy of revenue assessment;
- control over cargo;
- cost of operating the system; and
- capacity of the computer hardware to support national implementation with the addition of further design features.

**7.59** Because the system introduced in Toronto represented only the core of the planned system, the Department was unable to address fully all of its criteria. For example, although assurance was obtained that the computer hardware could support national implementation of the core system, questions of its capacity to

support the total system could not be addressed. While the full impact of the completely developed CEPACS on the Department's operations could not be assessed on the basis of the performance of the core system alone, knowledge of the impact of the core system was necessary as a consideration in proceeding with national implementation of the core system and as a means of establishing the base to be used in evaluating the completely developed system.

**7.60** Accordingly, the Department defined measures to permit assessment of the performance of the core system in Toronto in terms of its criteria. In our opinion, these measures did not permit valid assessment of the impact of the core system. For example:

- The measures used to establish the impact of CEPACS on the accuracy of revenue assessment focused on additional errors identified by the system. However, although the output of the manual system was tested by reprocessing it through CEPACS to determine if CEPACS identified other errors, steps were not taken to establish whether the introduction of the core system affected detection of errors by manual operations still required under the automated system. Therefore, no valid conclusion could be drawn concerning the overall impact on the accuracy of revenue assessment of the core CEPACS.
- The measures specified to assess the impact of the system on cargo control concentrated on ensuring that documentation was accounted for. The measures did not address the relative accuracy of matching cargo documentation to entry documentation in the automated and manual systems.

**7.61** We also found that there was a lack of rigour in the design and execution of the evaluations carried out in Toronto. For example, at the time the evaluations were being performed, port staff were augmented by the presence of implementation teams; at the same time, a new staff rotation scheme was introduced. Consequently, the Department could not determine whether observed results were attributable to:

- introducing CEPACS;
- increasing the number of staff in the ports;
- variations in expertise; or
- external factors.

These factors also prevented accurate determination of the effect of the core system on operating costs.

**7.62** The evaluations compared CEPACS to a system modified to allow for the introduction of the core CEPACS rather than to the manual system that existed prior to CEPACS. Therefore, the evaluations could not provide an assessment of the impact of the introduction of the core system on the manual system actually operating in the ports before automation.

**7.63** Accepting that the evaluations did not fully answer the questions raised by its criteria because of weaknesses in specification of measures and design, the Department concluded that its experience in introducing CEPACS in Toronto without major implementation problems provided assurance that the core system could be introduced nationally. The Department decided to proceed with national implementation, judging that the costs and risks entailed were acceptable in the light of the need to automate departmental operations, standardize operating procedures and given the benefits to be obtained from developing additional features which form the basis for proposed changes to the customs system.

**7.64** Because these features had not been defined to the extent that reliable estimates could be made of their costs and benefits, impact on effectiveness, or computer capacity requirements, insufficient information was available on which to base an assessment of the reasonableness of the Department's expectations for these features.

**7.65** A comparison of the introduction of ERA to that of CEPACS allows for certain general conclusions. The implementation of the CEPACS core system on a port-by-port basis was more tightly controlled, ensuring that operating procedures were more uniformly applied. Also, more time and effort were devoted to developing criteria and gathering data. In both cases, pilot implementations assured the Department that the system was operable but in neither case was the impact of the new system on operating efficiency and effectiveness known. In the case of the CEPACS core system, the Department attempted to measure this impact; however, the design of the evaluations and measures specified did not allow it to do so. Therefore, while control over implementation and the extent of evaluations were improving, the shortcomings which continue, particularly in respect of assessing the impact of operational changes, are of major concern both to the Department and to the Audit Office.

**7.66 Systems changes in Excise Branch.** One of the primary objectives of the major operational change currently under way in the Excise Branch is to improve audit selection and planning by incorporating relevant additional information.

**7.67** Our review focused on the work of the Excise Branch in defining the problems they were addressing, specifying the objectives of the change and criteria against which its success was to be assessed, and determining the resulting development of a conceptual solution.

**7.68** As part of its investigation of the impact of Excise audit selection procedures which could repeatedly exclude certain taxpayers from audit, the Department carried out a test on a sample of such taxpayers to update their files and confirm that their continued exclusion would not have a substantial impact on revenue. This test was not intended to be significant in terms of its cost; however, it was significant in that information of this nature would affect decisions concerning whether action was needed to modify selection criteria. The Branch determined that this particular investigation did not produce reliable information on the impact of excluding such taxpayers because:

- the size and method of selecting the sample precluded extrapolation of the observed results; and
- a lack of control over the design of the test cast doubt on the validity and reliability of the observed results.

**7.69** The results of this test did not provide the Branch with the information necessary to determine reliably whether action was needed to modify selection criteria to ensure that such taxpayers were audited more frequently.

**7.70** We also reviewed the current major project of the Branch aimed at improving audit selection and planning. The objective of this project, the Excise Clientele Profile system, is to make improvements by providing better and more complete information about individual excise taxpayers and about workloads and use of resources. Essentially, it addresses what the Department considered to be the unsatisfactory integration of five of the Branch's existing systems. Since this project is not yet in operation, we could only review the early phases of its development.

**7.71** We found that the problem definition, the statement of objectives and the specification of evaluation criteria represented improvement over earlier projects we reviewed. In particular, success criteria had been clearly identified in quantifiable terms. Nevertheless, certain concerns remain, both in regard to the problem definition and the specification of success criteria.

**7.72** In the problem definition, no identification had been made with respect to magnitude (in terms of quality, quantity, cost and time) or relative significance of the various identified problem areas in the existing system. The Branch informed us that an investigation to determine the relationships that exist between auditee characteristics and audit profitability and cost, which would have permitted a ranking of information needed for better audit selection and planning, is to be carried out later in the project. Without such a ranking, it is difficult to establish appropriate priorities for solving or deferring particular problems.

**7.73** Success criteria for the new system had originally been stated in terms of its contribution to an overall average Excise Branch productivity gain with

1978-79 as the base year. Criteria have also been established for particular areas such as turnaround times, effectiveness of collection activities and other Excise audit functions.

**7.74** During our audit, we noted that the base year information against which improvements were to be measured was not compatible with data to be generated by the new system. These incompatibilities would have prevented the Branch from identifying whether changes in productivity were the result of better selection and planning or the result of other factors, such as the extent of completion of the audit plan in the base year. The Branch is reviewing this area with a view to ensuring that valid comparisons will be possible.

**7.75** In comparison to previously acknowledged weaknesses, the Excise Branch has now adopted a more formal and rigorous approach to the introduction of operational change. Some concerns remain, however, in that the problem definition phase of the audit improvement project has not been executed to a degree that could be considered appropriate for satisfactory project management and control systems. In addition, there was no assurance that the base data for planned evaluation would permit meaningful comparisons.

### **Reporting to Parliament**

**7.76** As noted in the Introduction to the comprehensive audit chapters, the Department and the Office of the Comptroller General have undertaken a pilot project to revise the form and content of Customs and Excise Estimates. This Office is providing appropriate assistance to the project team.

### **Conclusions and Recommendations**

**7.77** The Department has launched worthwhile efforts directed toward correcting previously identified weaknesses in its management and control systems and toward improving the efficiency and effectiveness of its operations.

**7.78** It is too early to tell the extent to which the Department's changes to management control systems will provide increased control leading to improved efficiency and effectiveness of departmental operations. A revised department-wide planning process has been developed and is in place. Problems experienced in using it to produce timely, results-oriented plans are being addressed. Similarly, a project is under way to improve the quality of information currently available to management by providing information that will facilitate measurement of progress against plans.

**7.79** Steps have also been taken to provide a more formal approach to, and better control over, the introduction of proposed changes through the application of project management techniques and controls. By providing training, the

Department is addressing the problems of varied skill levels and success in using these techniques.

**7.80** Until development and implementation of these major control systems are complete, the Department will not be in a position to assess fully the impact of its actions. This may lead to situations in which departmental resources are not deployed to maximum advantage or operational changes are introduced that fail to improve efficiency and effectiveness. We are concerned that the Department may not become aware of such instances unless they are of gross magnitude.

**7.81** This situation highlights the importance of evaluating major operational systems changes to provide assurance that their impact on efficiency and effectiveness is known before they are finally adopted. Our audit findings indicate that evaluations carried out on major changes have not enabled the Department to determine the full impact of operational changes.

**7.82** While periodic and appropriate evaluations are an integral part of any management control system, they are particularly crucial for the Department during a period when other information is often unavailable or is untimely or unreliable. The following recommendations represent the action the Department, while continuing to develop, implement and improve its management and control systems, should take to gain information essential for effective decision making and control.

**7.83** *The Department should:*

- take steps to ensure that managers state their goals in terms of the results to be achieved by their actions and that information systems record the information necessary to measure progress against those goals;
- ensure that as management control systems are further developed and implemented, they are adapted to the needs of operating managers and that these managers use the systems as intended;
- take action to ensure that the requirements of its project management process are adequately carried out; and
- ensure that evaluations permit management to assess the impact of proposed changes on the Department's operating efficiency and effectiveness before national implementation of such changes.

**Summary of Recommendations and Department's Comments**

*Recommendations*

*Department's Comments*

**7.83** The Department should:

- take steps to ensure that managers state their goals in terms of the results to be achieved by their actions and that information systems record the information necessary to measure progress against those goals; Agreed.
- ensure that as management control systems are further developed and implemented, they are adapted to the needs of operating managers and that these managers use the systems as intended; Agreed.
- take action to ensure that the requirements of its project management process are adequately carried out; and Agreed.
- ensure that evaluations permit management to assess the impact of proposed changes on the Department's operating efficiency and effectiveness before national implementation of such changes. Agreed.

**DEPARTMENT OF NATIONAL REVENUE - TAXATION**



## **DEPARTMENT OF NATIONAL REVENUE - TAXATION**

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## DEPARTMENT OF NATIONAL REVENUE - TAXATION

### Introduction

**8.1** This Chapter presents the findings and recommendations arising from our comprehensive audit of the Department of National Revenue-Taxation. The selection of areas covered by this audit was based on the results of a preliminary survey which covered all major activities of the Department.

**8.2** We would like to express our appreciation to the Department's managers and staff for their co-operation throughout the audit and their prompt assistance in clearing all factual material appearing in this Chapter. We discussed the findings of our audit with the Department's managers who, in some cases, had already begun implementation of corrective measures. However, concerns in certain areas, brought to their attention in earlier years, had not been acted on. We will continue to monitor the Department's actions in response to our recommendations.

### The Department

**8.3** The Department of National Revenue, under its enabling legislation, *R.S.C. 1970, c. N-15*, is divided into Taxation, and Customs and Excise. Each operates administratively as an independent department under a deputy minister. "Department" in this Chapter refers to Revenue Canada, Taxation (RCT).

### Objectives

**8.4** The 1979-80 Estimates state that the objective of Revenue Canada, Taxation is:

To administer and enforce the Income Tax Act, various Federal and Provincial statutes related thereto, including parts of the Canada Pension Plan and Unemployment Insurance Acts and various provincial tax credit plans.

**8.5** Four sub-objectives stated in the Estimates further delineate the responsibilities of RCT. These are:

- to facilitate voluntary compliance with the requirements of the law;
- to encourage voluntary compliance and deter tax evasion and tax avoidance;

- to maintain public confidence in the integrity of the tax system; and
- to provide the direction and support necessary to administer the law fairly, uniformly and economically.

### **Operating Highlights**

**8.6** RCT handles enormous quantities of paper work each year. For example, during the 1979 calendar year, the Department processed 45 million information slips, including T4s showing remuneration from employment and T5s showing interest income. It also processed 14.6 million personal tax returns (T1s) and 500,000 corporate tax returns (T2s). To complete these tasks, RCT used more than 16,000 person-years and expended \$389 million in 1979-80.

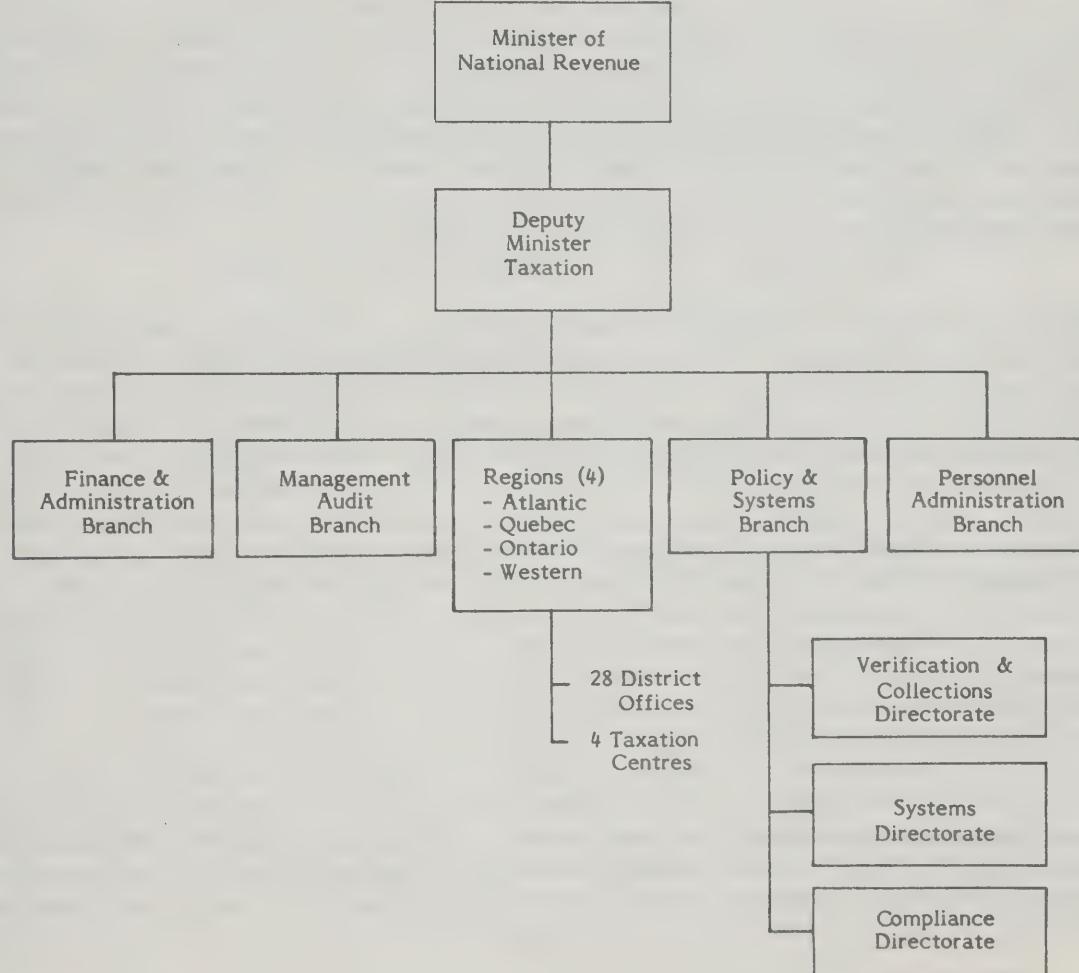
**8.7** The following table shows the gross revenue collected by RCT for the 1979-80 fiscal year, allocations made to agencies and provinces under various tax agreements, and refunds made to taxpayers.

<u>Funds Processed by Revenue Canada, Taxation</u>	
<u>(billions of dollars)</u>	
Gross Revenue	\$ 43.3
Collected on behalf of:	
Unemployment Insurance Account	(2.9)
Canada Pension Plan	(2.4)
Provincial Governments	(7.2)
Refunds to Taxpayers	(5.9)
Net Federal Tax Revenue	<u>\$ 24.9</u>

### **Organization**

**8.8** Exhibit 8.1 sets out the areas of RCT's organization with which our audit was primarily concerned. Revenue Canada, Taxation has a Head Office in Ottawa and 28 District Offices and 4 Taxation Centres throughout Canada. A director is in charge of each Office and Centre. The activities performed by the District Offices include audits of taxpayers, collection of taxpayers' accounts and other work requiring direct service to taxpayers. Taxation Centres are responsible for activities which do not involve direct contact with taxpayers. These include initial assessments and storage of tax returns. Three more Taxation Centres are currently being planned.

**DEPARTMENT OF NATIONAL REVENUE  
TAXATION**  
**PARTIAL ORGANIZATION CHART - 31 MARCH 1980**



Note:

Three branches, a directorate and a division reporting to the Deputy Minister, but not shown, are the Appeals Branch, Information Services Branch, Legislation Branch, the Decentralization Co-ordination Directorate and the Management Controls Division.

**8.9** The Finance and Administration Branch establishes financial management, accounting and control systems over departmental resources. It also provides advice and assistance on all matters associated with financial administration. In addition, the Branch provides the Department with administrative management services.

**8.10** The Management Audit Branch performs the internal audit function by conducting an independent appraisal of all departmental activities for the Deputy Minister. It provides objective analyses and makes recommendations to all levels of management concerning the activities reviewed.

**8.11** The Policy and Systems Branch at Head Office, under an Assistant Deputy Minister, works closely with parallel operational groups in District Offices and Taxation Centres on program matters and is responsible for ensuring that consistent national policies and systems are developed and monitored. It also provides operational advice to the Regional Assistant Deputy Ministers. The Branch is comprised of three directorates: Verification and Collections, Systems, and Compliance.

**8.12** There are three divisions within the Verification and Collections Directorate: Assessing, Accounting and Collections, and Taxroll. Among other functions, the Directorate formulates policy for taxpayer filing requirements, deductions at source made by employers, monthly and quarterly remittances, the assessing of returns, and collection of tax arrears. The Systems Directorate is responsible for the Department's electronic data processing activities, including planning and developing new systems and maintaining and operating current systems. Virtually all the Department's operations are dependent upon or influenced by the systems developed and operated by this Directorate. The Compliance Directorate includes four divisions: Special Investigations, Taxpayer Audit, Tax Avoidance and Audit Review. These divisions formulate policy, monitor the results of District Office operations and provide advice to District Offices.

**8.13** The Personnel Administration Branch provides departmental management with advice and service on personnel policy and related administrative practices. It also provides management and employees with a full range of personnel services in areas such as classification, pay, staffing, staff relations, official languages and technical and managerial training.

### **Operating Environment**

**8.14** The Canadian income tax system is based on voluntary compliance and self-assessment by individuals and corporations. The nature of this system requires that RCT perform certain associated activities, such as:

- assessing tax returns for compliance with the law and for reasonableness;
- processing instalment payments and collecting taxes due;
- responding to taxpayer enquiries concerning tax laws and regulations;
- conducting audits of individuals and corporations;
- identifying non-filers; and
- enforcing penalties for tax evasion.

**8.15** There are several significant environmental factors that affect the amount of work involved in, and the results obtained from, performing these activities. These are:

- the extent of voluntary compliance and the quality of taxpayers' documentation in support of their tax submissions;
- the use of tax policy as a vehicle for achieving government socio-economic objectives;
- the reliance by many provincial governments on the Federal Government to collect provincial taxes and distribute provincial tax credits; and
- the division of responsibility and authority among RCT and other organizations for tax policy formulation, prosecutions and appeals.

**8.16 Significance of voluntary compliance and supporting documentation.** The amount of effort required to reduce the tax gap (that is, the amount of taxes due but not reported or remitted), depends primarily on the extent of voluntary compliance and the availability of supporting documentation. Information from third parties, such as T4 data from employers, is of particular importance. If voluntary compliance decreases or supporting documentation is not available, then the level of effort required to achieve the Department's objective increases significantly.

**8.17 Use of the income tax system to achieve socio-economic benefits.** The income tax system is used by the Government in support of a variety of socio-economic programs such as the Child Tax Credit and Canada Pension Plan. These uses of the taxation system are normally announced through budget speeches and are usually implemented on short notice. As a result, RCT must be able to respond rapidly with changes in procedures and regulations.

**8.18 Performance of activities on behalf of provinces.** Most provinces have elected to depend on the Federal Government for collecting provincial income taxes and administering benefits. The Ontario Property Tax, Sales Tax and Pensioner Tax Credits, and the Alberta Royalty Tax Credit are examples of this type of intergovernmental co-operation. Because of these tax collection agreements, the Federal Government must perform additional collection, analytical and reporting functions. In addition, the Government must be in a position to demonstrate to the provinces that it performs these functions as outlined in the agreements.

**8.19 Division of responsibility and authority.** The system required to administer the Income Tax Act, R.S.C. 1970, c. I-5, and various other federal and provincial statutes administered by the Department involves activities such as formulating tax policy, prosecuting delinquent taxpayers and hearing appeals. These functions involve the Departments of Finance and Justice, the Tax Review Board and the courts, as well as RCT. Consequently RCT must maintain close liaison with, and in certain cases adjust its activities to comply with, the decisions reached by these organizations.

**8.20** To sum up, these external constraints, over which the Department has limited control, can affect the amount of tax revenue collected despite the resources applied by the Department, or require a changing level or type of administrative effort for a given amount of taxes collected. Our audit has taken these constraints into account.

### **Audit Scope**

**8.21** Our audit objectives were to determine whether:

- departmental financial information reported in Volume I of the Public Accounts of Canada for the year ended 31 March 1980 was presented fairly in accordance with the stated accounting policies of the Government of Canada and on a basis consistent with that of the preceding year;
- the Department had in place, adhered to and enforced adequate rules and procedures for the assessment, collection, proper allocation of and accounting for revenues;
- appropriate management controls existed to ensure that human and material resources were acquired and used in an economical and efficient manner; and
- departmental procedures were in place for measuring and reporting program effectiveness.

**8.22** Because RCT processes and accounts for billions of tax dollars annually, we concentrated our audit on revenue assessment, collection and allocation and on accounting and administrative systems. We reviewed the following areas:

- the financial controls over and reasonableness of data produced by all significant systems for assessing, collecting, allocating and accounting for revenue;
- management practices in the Systems Directorate for the support of existing computer systems, development of new systems and planning for future computer processing capability;
- the internal audit function performed by the Management Audit Branch;
- the extent to which the Department has established satisfactory procedures for measuring and reporting the effectiveness of its program;
- RCT's development, use and maintenance of its Management Information System (MIS);
- the financial and managerial control systems in District Offices and Taxation Centres;
- the systems to measure and report productivity at three Taxation Centres and the labour efficiency levels for seven operating units in the Ottawa Taxation Centre; and
- payroll costs management, including manpower planning, training and development, and personnel information systems used within the Personnel Branch.

**8.23** We examined the information reported to Parliament concerning RCT's program and operations. In addition, we provided assistance to RCT in identifying performance indicators suitable for reporting to Parliament.

#### **Summary of Audit Observations**

**8.24** In our opinion:

- money collected was properly accounted for;
- initial assessment of individual and corporate tax returns (T1s and T2s) was accurate, and resulting revenues were properly allocated and accounted for;

- individual and corporate taxpayers' accounts and employers' accounts for payroll deductions were properly stated; and
- refunds, including payments resulting from federal and provincial tax credit plans were accurately calculated, allocated and paid;

in accordance with the relevant legislation.

**8.25** Although electronic data processing is crucial to the Department, we found that, in the event of a disaster such as fire or sabotage occurring in the computer centre, the Department has virtually no plans or capability to recover from the disaster. This risk was brought to the attention of the Department by the RCMP in 1975, by this Office in 1977 and 1978 and again by the RCMP in 1979.

**8.26** In the management of EDP activities, we found that the Systems Directorate had been able to support departmental requirements to date, but we are concerned about the Directorate's ability to continue to provide efficiently the support needed in the future. Our concerns are based on the weaknesses we observed in the Directorate's procedures and practices for the development of new systems, the maintenance of existing systems, manpower planning and planning for technological change.

**8.27** The Management Audit Branch provides management with a planned continuing independent appraisal of the Department's activity. Its audit findings are, without exception, reviewed by senior management. However, the Branch's work would be improved through expanding the scope of financial audit to establish whether the budgetary revenues and expenditures in the financial statements are fairly stated and by ensuring adherence to standards for documentation of audit work.

**8.28** We audited the management information systems and controls operating within the Department. The major findings follow:

- The Department's approach to evaluating the overall effectiveness of its program was generally appropriate, but could be improved by providing a better estimate of the amount of taxes which should be remitted by persons who do not file returns.
- Financial and managerial controls in RCT's District Offices were generally operating satisfactorily, except for slow collection of overdue taxpayer accounts. In addition, operational audit capability and practices needed to be improved.
- In the main operating sections of the Taxation Centres, the Department had not determined its performance in relation to appropriate engineered standards. Also, insufficient use was

made of productivity improvement techniques. Labour efficiency measured against engineered standards for clerks working in seven units in the Ottawa Taxation Centre, the Centre with the largest single concentration of clerical staff within the Department, ranged from 92 to 69 per cent. The weighted average for these units was 82 per cent, which we consider to be evidence of due regard for efficiency. Inferences about the efficiency of the Taxation Centre in general or of the Department as a whole cannot be drawn from our findings because the units examined had special characteristics not be found to the same extent elsewhere.

- During the course of our audit, the Department initiated steps to correct deficiencies in the management information systems used within the Personnel Branch and the system used to report and control training costs and benefits.

### **Observations and Recommendations**

#### **Assessment, Collection, Allocation and Accounting for Revenue**

**8.29** In the year ended 31 March 1980, RCT assessed, collected and accounted for \$43 billion of revenue. This was allocated to the Federal Government, federal agencies and the provinces for whom the revenues were collected. The extent to which this was done correctly affects not only these organizations but also every corporate and individual taxpayer in Canada.

**8.30** The Department has a sophisticated and complex system in place to assess, collect and account for revenue and to process the millions of documents received annually. Our audit identified and tested the controls within each of the revenue accounting sub-systems. By reassessing tax returns, confirming taxpayers' accounts, evaluating and testing systems controls and recalculating the allocation of revenue among various entities, we obtained evidence of an appropriate quality and quantity to support our opinion that, within acceptable audit limitations, and in accordance with the relevant legislation:

- money collected was properly accounted for in accordance with the stated accounting policies of the Government of Canada and on a basis consistent with that of the preceding year;
- initial assessment of individual and corporate tax returns (T1s and T2s) was accurate, and resulting revenues were properly allocated and accounted for;
- individual and corporate taxpayers' accounts and employers' accounts for payroll deductions were properly stated and properly reflected remittances, refunds, assessments and taxpayer account adjustments; and

- refunds, including payments resulting from federal and provincial tax credit plans, were accurately calculated, allocated and paid.

### **Management of Electronic Data Processing**

**8.31** Revenue Canada, Taxation is one of the most extensive users of electronic data processing in the Federal Government. It spends approximately \$25 million each year on this service and employs about 430 persons to design and operate its computer systems. The service is provided by a Systems Directorate headed by the Director General - Systems who reports to the Assistant Deputy Minister, Policy and Systems Branch.

**8.32** The Department relies on its computer systems to support virtually all its tasks. Tax returns, assessment notices and refunds for millions of individuals and corporations are processed by computer. Computer systems compare payroll deductions made by employers with those reported by employees on their tax returns and keep historical data on all taxpayers to service enquiries and aid in future years' assessments. Contributions to the Canada Pension Plan and the Unemployment Insurance Account are recorded and totalled by computer, which also calculates the allocations of tax revenues among the provinces. In addition to serving these and other program responsibilities, the Department uses computers to produce management information for its internal administration.

**8.33** This Office assessed the Department's EDP activity as part of the CAISE study, reported in our 1977 annual Report and followed up in our 1978 Report. The Royal Canadian Mounted Police conducted evaluations of the security of the Department's EDP operations in 1975 and 1979. In addition to a follow-up of the CAISE and RCMP recommendations, our review concentrated on the current state of management practices in support of existing computer systems, the development of new systems and longer-term direction of EDP support for departmental activities. In our comprehensive audit report to the Department, we have set out the details of our observations and recommendations; a summary follows.

**8.34 Continuity of computerized operations.** The Department relies on one main computer centre for all its data processing activities. In the event of a disaster at this centre, such as fire or sabotage, the records of millions of taxpayers would be in danger of being destroyed and the Department's ability to function would be seriously impaired.

**8.35** Despite the importance of the computer centre's processing capability, comprehensive contingency measures necessary to provide continuity of computerized operations have not been implemented. Comprehensive contingency measures include assigning priorities to systems for emergency operations, arranging for suitable back-up equipment, providing off-site storage for data files, computer programs and documentation, and having detailed, documented plans for

maintaining continuity of key operations and capability for re-establishment of the computer centre following an emergency. These measures were recommended in our 1977 Report and again in our 1978 Report and by the RCMP security evaluations in 1975 and 1979.

**8.36** *The Department should take the necessary action to ensure the continuity of its computer processing capability.*

**8.37 Development of new systems.** At the time of our review, the Systems Directorate was undertaking projects to develop major new systems and extensions to existing systems which will significantly influence the operation of the Department in the future. These projects include new or enhanced systems for processing individual tax returns, corporate tax returns, taxpayer enquiries and internal management information for the Department.

**8.38** As part of our review we examined the Department's systems development practices to determine whether they were adequate for controlling development costs and schedules and would meet their objectives, and whether they could be maintained efficiently after they had been installed.

**8.39** We noted that the Department was in the process of implementing new systems design methodology and that plans existed to develop a complete Standards Manual. We found, however, that standards had not been developed by the Department in accordance with the Treasury Board *Administrative Policy Manual* for four key phases of the systems development process: project initiation, feasibility study, installation and post-installation. We noted that, in feasibility studies for certain major projects, objectives of the system under development and expected benefits were not clearly defined, estimates of total development and operating costs were not shown, and there was no evidence that major processing alternatives had been examined. The Department lacked review and enforcement mechanisms to ensure that all project phases would be completed and documented in a proper manner.

**8.40** These deficiencies expose the Department to the possibility of developing new systems which do not meet objectives, are not of an economical design, and will be difficult to maintain and operate in the future.

**8.41** *The Department should develop, implement and enforce standards in compliance with the Treasury Board Administrative Policy Manual for all phases of the systems development process.*

**8.42 Maintenance of existing systems.** Computer systems, once installed, need to be continuously maintained and updated; for example, to reflect changes in legislation or to accommodate additional information needs. Approximately

260 analysts and programmers implement some 5,000 changes or additions annually to the Department's computer programs.

**8.43** Our review included management practices designed to ensure that systems maintenance is conducted in an efficient manner and that proper controls are exercised to ensure that changes are correctly made.

**8.44** We found that the Department had developed appropriate standards for performing, testing and documenting program changes. However, we also found that these standards were not being consistently enforced and that the quality of documentation and explanation of the changes made differed from project to project. Instances were noted of a high level of error correction occurring after changes had been made to programs. We also found that, although the Department had made efforts to define the roles and responsibilities of programmers and analysts, some uncertainty still existed amongst the staff.

**8.45** The conditions described above lead to inefficiencies in the use of both personnel and equipment, difficulties in maintaining the system in the future and exposure to introducing errors in the system.

**8.46** *The Department should ensure compliance with its standards for performing, testing and documenting program changes.*

**8.47** *The Department should further clarify the roles and responsibilities of analysts and programmers for the systems maintenance activity.*

**8.48** **Manpower planning.** The Systems Directorate is highly dependent on the skill and knowledge of its staff because of the complexity of the taxation system and the need to respond quickly to changes in legislation. In addition, the present lack of enforcement of standards in many areas of its operation increases the Directorate's dependence on trained and qualified personnel.

**8.49** Staff turnover in recent years has resulted in shortages of trained personnel. Although a long lead time is required to develop the specialized skills of the kind required, we found that the Directorate did not carry out systematically the manpower planning activities necessary to identify staff needs, project skill and knowledge requirements, determine training and experience requirements for progression of staff, and assess the progress of individuals.

**8.50** *The Department should implement more comprehensive procedures for manpower planning and career development for the analysts and programmers in the Systems Directorate.*

**8.51 Planning for technological change.** The Department's computer systems have evolved to the point where large, sophisticated networks of computer equipment and software are used across Canada for taxpayer enquiry, regional data operations and centralized computer processing. The Department's investment in computer hardware and software is substantial, and there is a continuing need to keep it current and efficient. Two factors affect this process. First, rapid advances in computer technology continue to alter the economics of computer processing. Second, the development of new processing methods or radical restructuring of existing processes influence the type of computer resources which are most suitable for the new mix of processing. The lead time necessary to effect major changes in computer resources requires the examination of alternatives and a commitment to equipment and methods of processing several years in advance of anticipated events.

**8.52** Although the Directorate has, in the past, assigned skilled individuals exclusively to the planning of computer resources, recent organizational changes have resulted in assigning responsibility for this function to line management personnel responsible for the day-to-day development and maintenance of systems. In our opinion, the Department is conducting insufficient evaluation activity to ensure that the effects of technological change on the economy and efficiency of its processing methods are properly considered.

**8.53** *The Department should devote sufficient resources to the technical planning for computer processing capability.*

#### **Internal Audit**

**8.54** The Department's internal audit function is performed by the Management Audit Branch, which reports directly to the Deputy Minister. The Branch is composed of three main groups: Management Audit, Data Processing Activities Audit and Financial Audit. It employs 20 professional auditors.

**8.55** Chapter 12 of our 1978 annual Report presented the results of a government-wide study of internal auditing, which identified the need for comprehensive internal audit and established minimum criteria for the performance of such work. Internal audit at RCT was included in the 1978 study. We examined this function as part of our follow-up to the 1978 study. As was the case in our 1978 study, we found that, in general, the operations of the Management Audit Branch met the criteria set by our Office. We believe, however, that there is a need for improvement in the following areas.

**8.56 Financial audit.** We found that the Financial Audit group did not review the Department's annual financial statements or the audits done by other sections of the Management Audit Branch to ensure that the budgetary revenues and expenditures in the annual financial statements were fairly stated.

**8.57** The Financial Audit group should expand the scope of its audit to establish whether the budgetary revenues and expenditures in the financial statements are fairly stated.

**8.58 Documentation standards.** The Management Audit Branch documents its work through detailed and extensive audit reports and through query sheets which confirm pertinent facts with the auditee. The completeness and quality of other working papers vary, depending on the auditor and the audit involved. Although working paper standards were established in 1978 by the Branch, these were not enforced. The inconsistent documentation and non-enforcement of standards does not allow external auditors to rely fully on the audit work performed.

**8.59** The Management Audit Branch should ensure adherence to its documentation standards.

### **Measurement of Program Effectiveness**

**8.60** We examined the Department's stated objectives and activities to determine the extent to which satisfactory procedures existed for measuring and reporting the effectiveness of its program. We based our review on the effectiveness criteria developed during the SPICE Study reported in our 1978 Report. Our review was a follow-up of the recommendations on RCT included in that Study.

**8.61** Determining the effectiveness of the taxation program requires the measurement of the difference between the revenue actually collected and an estimate of the revenue which theoretically would be collected, given 100 per cent compliance with the law. As noted previously, this difference is called the "tax gap".

**8.62** The Department has developed a Compliance Measurement System (CMS) that provides an estimate of the amount of taxes that could be recovered by expanding the current activities of the Department. It is the Department's intention to use the full CMS every five years and prepare estimates based on actual compliance activities in the intervening years.

**8.63** The SPICE study noted weaknesses in the Compliance Measurement System. However, as the Department was already aware of and addressing these weaknesses, the SPICE recommendations concentrated on the need to accelerate departmental efforts. Since then, the Department has expanded its CMS through the use of an improved audit sample for identifying recoverable taxes from filers and through several identification and matching programs to identify non-filers, that is, people who do not file returns, and undeclared income from filers. While we recognize that it is difficult to determine the tax gap accurately, we believe

the Department could develop better estimates in some areas. The results from previous and future non-filer studies of specific taxpayer groups could be used to provide better overall estimates for all non-filers. While such estimates would be indicative rather than definitive, by providing a better estimate of the tax gap, they would be useful for assessing the effectiveness of the tax program.

**8.64**      *The Department should improve its estimate of the tax gap associated with persons who do not file returns.*

### **Management Information System**

**8.65**      In 1970, the Department recognized the need for timely, accurate information on employee productivity as a basis for planning and control. The development of a computer-based Management Information System (MIS) was initiated for time reporting, personnel management, resource management and production data. The objective of the system was to satisfy the needs of Headquarters, District Offices and Taxation Centres.

**8.66**      Initially, the system that was implemented did not produce information that was timely, accurate or based on individual employee data. The Department initiated a number of studies and corrective measures. Although it was successful in making the system accurate, thereby satisfying headquarters' needs, it was unable to correct the other problems. Field staff, to meet their information requirements, developed a variety of manual systems based on the same information used for the computer-based MIS documents.

**8.67**      In our opinion, the Department did not overcome the identified systems problems for the following reasons:

- the Department gave low priority to MIS;
- three or more groups, each with its own priorities and responsibilities, were involved in development;
- there was a shortage of systems development and programming staff; and
- an effective mechanism to co-ordinate and monitor project progress was lacking.

**8.68**      Recently, steps were taken by the Department to resolve these problems. In April 1979, the Department clarified the roles and responsibilities for MIS development and, in particular, the relationships among the Data Management Group, the Management Controls Division and the Systems Directorate. In June 1979, the Department outlined an information systems strategy which was followed later by a more detailed plan. Regular project

meetings are now held and a key individual is co-ordinating and monitoring the progress of the project. We will follow this up in future audits to determine whether these initiatives will resolve the MIS difficulties.

### **District Offices and Taxation Centres**

**8.69** District Offices and Taxation Centres perform the major processing functions of the Department. They account for 89 per cent of RCT's person-years. The purpose of our audit was to determine whether financial and managerial control systems existed and provided management with assurance that financial and administrative policies and procedures were carried out. During the past two years, we examined two Taxation Centres and twelve District Offices, including the three largest District Offices.

**8.70** Our review and testing of financial and managerial controls indicated that, in general, sufficient control procedures existed and were operating satisfactorily to ensure the proper execution of departmental policies. Our audits identified instances, however, where this was not the case. These were reported to management at the conclusion of each audit, and will be followed up by our Office. Two findings deemed to be of sufficient importance to bring to the attention of the House of Commons were:

- the slow collection of overdue taxpayer accounts; and
- the deficiencies observed in the District Offices' operational audit activities.

**8.71** **Collection of overdue accounts.** Initial action to collect a taxpayer's account is handled through the computer. If, based on predetermined criteria, individual attention is considered necessary, collection responsibilities are turned over to District Office staff. Accounts are allocated according to their dollar value and complexity.

**8.72** In our review of the District Office collection activity, we found that for numerous accounts no collection activity had taken place for periods of several months or longer. We also found that, except for larger accounts, there was no continuing check to ensure that each collection officer attempted to collect all accounts for which he was responsible.

**8.73** *The Department should institute controls to ensure that taxpayer accounts identified as being under District Office responsibility are actively pursued for collection.*

**8.74** **Operational audit.** As part of its on-going operations, each District Office has an operational audit function. Its objective is to assist the director in

the effective discharge of his responsibilities by providing a check on all aspects of security of taxpayer information and an evaluation of the District Office's system of internal controls. Operational audit may also provide special analyses, appraisals, recommendations and reports on any phase of District Office activity. This function is separate from the Management Audit Branch which performs the role of internal auditor for the Department and reports directly to the Deputy Minister.

**8.75** Our review of the function showed that, in their planning process, the operational auditors did not include a reasonable assessment and ranking of high-risk areas to ensure that these are adequately covered by operational audits. The resources assigned to this audit function were frequently diverted to operational duties. In addition, many auditors were uncertain about what was expected of them and did not have the necessary technical skills and training to execute their work properly.

**8.76** *The planning for the District Office operational audit activity should include an assessment and ranking of high-risk areas.*

**8.77** *The Department should clarify the responsibilities of operational audit staff and ensure that they have the necessary skills.*

### **Productivity Measurement and Operational Efficiency**

**8.78** Taxation Centres account for about 3,600 person-years or 22 per cent of the Department's human resources. Most of these person-years are used in clerical tasks. Productivity measurement is central to achieving effective control over efficiency in these operations. Hence, we evaluated systems for measuring and reporting productivity at the Ottawa, Winnipeg and Surrey Taxation Centres to determine whether the systems:

- used relevant and accurate measures of productivity;
- compared productivity to a standard;
- tailored reports to management needs;
- used performance data to achieve productivity improvement; and
- kept productivity measures and reports current.

**8.79** The audit covered the majority of operating sections of the three Taxation Centres. We examined time and production reports for the sections which perform the following activities: review and deposit cash receipts from taxpayers; process incoming mail; arrange tax returns in the proper format for assessing; correct returns containing errors; perform special projects; enter tax

return data into the computer; prepare returns for storage; and mail returns to taxpayers. These activities account for 71 per cent of the person-years used at the three Taxation Centres examined.

**8.80** We reviewed the reports used by the first level of Taxation Centre managers, who have primary responsibility for monitoring day-to-day labour efficiency. Such reports contained information on employee time on an hourly basis and on individual and group production, such as mail volume sorted or tax returns examined. In most cases, they also indicated employee productivity, such as pieces of mail sorted per hour or number of tax returns examined per day. These measures provided most supervisors with a basis for judging the productivity of individuals and groups in relation to that budgeted or expected. The input for these reports was obtained from employee time and production logs. In most cases, the reports reviewed were manually processed by the supervisor and were summarized to the section level.

**8.81** Most of the production and time documents examined were also used as a basis for the Taxation Centre's input to the departmental Management Information System, which is discussed in paragraphs 8.65 to 8.68.

**8.82** As a result of our examination of the measurement and reporting systems, we found that:

- Time reports and production counts used were generally accurate. Production counts provided, in general, satisfactory measures of the work performed.
- The Department compared current productivity to historical performance rather than to engineered standards developed by work measurement techniques.
- In most sections, productivity summaries and reports were prepared. In the sections processing cash and receipts from taxpayers, however, and in those preparing returns for storage and mailing returns to taxpayers, time and production data were not summarized to provide timely productivity reports.
- Performance data were used in establishing productivity targets and planning short-term resource needs. However, we observed some opportunities to improve work methods and work place layouts through the application of productivity improvement techniques. These techniques include work simplification, systematic office and workplace layout, and methods study.

**8.83** For all tasks amenable to work measurement techniques, the Department should periodically determine its performance in relation to appropriate engineered standards.

**8.84** The Taxation Centre managers should make use of productivity improvement techniques where appropriate.

**8.85 A test of efficiency.** Control of labour efficiency is one of the more important management tasks in a department such as RCT which is a major user of clerical staff. Hence, we included in our audit a test of labour efficiency. The Ottawa Taxation Centre was chosen for this test as it has the largest single concentration of clerical staff within the Department. We developed engineered standards and determined 1979 labour efficiency levels for seven operating units in three sections within this Taxation Centre. These units sort incoming T1 returns, arrange tax return documents into prescribed sequences, verify information on the returns by referring to attachments, prepare the returns for data entry, and enter the T1 data into RCT's computer system.

**8.86** Inferences about the efficiency of the Taxation Centre in general or of the Department as a whole cannot be drawn from our findings because the units examined had special characteristics not found to the same extent elsewhere, namely:

- individual employee productivity was used as a factor in the determination of pay levels, length of employment, rehiring decisions, lay-off and retraining needs and promotions;
- managers were able to maintain a balance between work force and workload by adjusting staff levels based on needs;
- managers had substantial, reliable production and time reports from each individual employee on a daily and in some cases hourly basis; and
- the work tasks were routine and highly repetitive. Clerks were highly specialized and performed short-cycle jobs.

**8.87** We selected units with these characteristics because they are amenable to evaluation using engineered standards developed by work measurement techniques. These activities accounted for more than 500 person-years or 18 per cent of the person-years used in the Ottawa Taxation Centre. Tabulated below in descending order are the measured efficiency levels of each of the seven units.

91.6	87.0	85.9	82.5
79.8	76.0	69.1	

Efficiency levels achieved against engineered standards for the routine clerical tasks examined, which ranged from 91.6 per cent to 69.1 per cent, had an overall weighted average of 82.1 per cent. We regard performance above 80 per cent as evidence of due regard for efficiency.

## **Payroll Costs Management**

**8.88** Our preliminary survey of payroll costs management in the areas of manpower planning, training and development and human resource information systems was based on criteria set out in the Auditor General's 1979 Report. In our survey, we noted the following:

- the information system used in the management of the Personnel Administration Branch contained unreliable, inaccurate and untimely information; and
- the systems used to report and control training costs and benefits did not include all costs and provided only limited evaluations of training benefits.

**8.89** During the course of our audit, the Personnel Administration Branch initiated changes in the areas of weakness identified during our preliminary survey. In our opinion, these changes are likely to resolve most of the concerns identified in our preliminary survey. We will follow up in future audits to determine whether this is actually the case.

## **Reporting to Parliament**

**8.90** As explained in the Introduction to the comprehensive audit chapters, the Office of the Comptroller General has undertaken a project to revise the form and content of the Estimates and Public Accounts. When the Department's sections of these documents are revised, the following audit observations should be taken into account.

**8.91 Performance information.** Indicators of program effectiveness should be provided, including an estimate of uncollected taxes and of the potential amount of taxes that RCT could collect by expanding its compliance activities. Other output or performance data, such as efficiency indicators, workload statistics and statistics regarding the level of service to the public, would be useful in assessing whether or not RCT is obtaining value-for-money from resources provided.

**8.92 Workload projections.** Information such as the number of tax returns expected and the revenue projected from compliance activities would help Members of Parliament assess the allocation of resources to the program.

**8.93 Personnel.** Salaries and wages are RCT's largest expense. Although some information is provided in the Estimates on personnel costs, this could be improved by including additional data, such as:

- personnel by region; and
- more details of the number, type and average salaries of personnel in each activity; for example, the total number of tax auditors (presently shown within the Scientific and Professional, Administrative and Foreign Service, and Administrative Support groups).

**8.94 Current projects.** Information on major current projects, such as the construction of Taxation Centres or the development of computerized file selection procedures, could enhance Parliamentarians' awareness of significant changes in the Department's program.

**8.95 Receipts and revenues credited to the Vote.** An explanation should be given of receipts and revenues credited to the Taxation Vote. For example, this explanation should indicate that recoveries from the Canada Pension Plan Account and the Canada Employment and Immigration Commission represent estimates of the charges for providing the service of collecting Canada Pension Plan contributions and Unemployment Insurance premiums.

**8.96** Of the key features suggested above, performance information is the most important. Using the Department's own data base, we assisted in developing illustrations of performance information which were provided to the Deputy Minister.

**Summary of Recommendations and Department's Comments**

*Recommendations*

*Department's Comments*

**Management of Electronic Data Processing**

**8.36** The Department should take the necessary action to ensure the continuity of its computer processing capability.

Agreed. All of the comprehensive contingency measures referred to in the report have been identified for implementation. The Sudbury Taxation Centre building plan contains a back-up site. As Public Archives cannot provide off-site storage within an acceptable period of time, we will continue to explore other storage possibilities. We have a verbal undertaking from our major computer suppliers for replacement equipment. The other contingency measures are in their initial developing stages and are part of the Departmental Disaster Plan.

**8.41** The Department should develop, implement and enforce standards in compliance with the Treasury Board Administrative Policy Manual for all phases of the systems development process.

Agreed. The Systems Directorate will complete the development, implementation and enforcement of standards where needed.

**8.46** The Department should ensure compliance with its standards for performing, testing and documenting program changes.

Agreed. Corrections of the deficiencies noted will be made.

**8.47** The Department should further clarify the roles and responsibilities of analysts and programmers for the systems maintenance activity.

Agreed. Further clarification will be examined.

**8.50** The Department should implement more comprehensive procedures for manpower planning and career development for the analysts and programmers in the Systems Directorate.

The Systems Directorate has a continuing program for the development of new analysts and programmers and individuals are provided specialized training as needs are identified for career development. The Directorate has agreed to review the benefit of formalizing the whole personnel planning process.

*Recommendations*

*Department's Comments*

**8.53** The Department should devote sufficient resources to the technical planning for computer processing capability.

The line management in the Systems Directorate has the responsibility to conduct evaluation activities to ensure that the Department benefits from the best available technology to carry out its EDP functions as efficiently as possible. A Planning and Research Co-ordination Group co-ordinates the whole activity and prepares yearly the five year plan. We will re-examine our position to see if it meets the Department's needs and maximizes the use of our resources in this area.

**Internal Audit**

**8.57** The Financial Audit group should expand the scope of its audit to establish whether the budgetary revenues and expenditures in the financial statements are fairly stated.

Agreed. These procedures will commence with the next financial statements.

**8.59** The Management Audit Branch should ensure adherence to its documentation standards.

Agreed. The Management Audit bulletin dealing with this topic has been revised (July 1980) to ensure that supervisors/Director do this in the future.

**Measurement of Program Effectiveness**

**8.64** The Department should improve its estimate of the tax gap associated with persons who do not file returns.

Agreed. This is desirable but, because of the lack of a comprehensive record of potential filers to compare to, our estimate will always be less satisfactory than the estimate of the tax gap associated with filers.

**District Offices and Taxation Centres**

**8.73** The Department should institute controls to ensure that taxpayer accounts identified as being under District Office responsibility are actively pursued for collection.

Agreed. There is room for improvement in the application of control systems now in place. It should be noted that the statement made by the Auditor that "for numerous accounts no collection activity had taken place for periods of several months or longer" refers to only 9 per cent of the accounts examined.

	<i>Recommendations</i>	<i>Department's Comments</i>
<b>8.76</b>	The planning for the District Office operational audit activity should include an assessment and ranking of high-risk areas.	Agreed. A mandatory security audit program has been in the development stage for several months and will be incorporated in our operations manual.
<b>8.77</b>	The Department should clarify the responsibilities of operational audit staff and ensure that they have the necessary skills.	Agreed. The responsibilities of operational audit staff have been clarified and will be recorded in our operations manual. The staffing of the operational audit with the necessary skills is the responsibility of each District Office Director and this will be emphasized.
<b>Productivity Measurement and Operational Efficiency</b>		
<b>8.83</b>	For all tasks amenable to work measurement techniques, the Department should periodically determine its performance in relation to appropriate engineered standards.	Agreed. The overall weighted average of 82.1 per cent efficiency found in the routine clerical tasks examined against engineered standards would indicate that the production standards based on historical data were reasonable. The Department will review the use of engineered work standards on a periodic basis on tasks amenable to this type of work measurement technique.
<b>8.84</b>	The Taxation Centre managers should make use of productivity improvement techniques where appropriate.	Agreed. The layout, equipment and furnishings in the new Taxation Centre buildings in Shawinigan-Sud, Winnipeg and Surrey and the three others under construction reflect the high degree of concentration on a systematic office and workplace layout aimed at meeting our staffing and production objectives. Productivity improvement techniques, where appropriate, will be examined in the Ottawa Taxation Centre.

**DEPARTMENT OF SUPPLY AND SERVICES – SUPPLY ADMINISTRATION**



# DEPARTMENT OF SUPPLY AND SERVICES – SUPPLY ADMINISTRATION

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## DEPARTMENT OF SUPPLY AND SERVICES - SUPPLY ADMINISTRATION

### The Department

#### Background

**9.1** The Department of Supply and Services was established in April 1969 by the Government Organization Act. In 1970, Part V of this Act was renamed the Department of Supply and Services Act, R.S.C. 1970, c. S-18. The Department was created to provide common services, that is, services provided centrally to meet the common needs of departments and agencies of Government.

**9.2** The Department is composed of the Supply Administration and the Services Administration, each headed by a Deputy Minister. In our 1979 Report (Chapter 17) we reported on our audit of the Services Administration (DSS-Services).

**9.3** The Supply Administration (DSS-Supply) is responsible for the procurement of goods and related services for the Federal Government. In addition, it is responsible for providing other services, such as printing, to departments and agencies. DSS-Supply combines the activities formerly carried on by the Department of Defence Production, the Printing Bureau and the Department of Public Printing and Stationery. The dissolution of Information Canada in 1976 resulted in the transfer of the publishing and expositions functions to DSS-Supply.

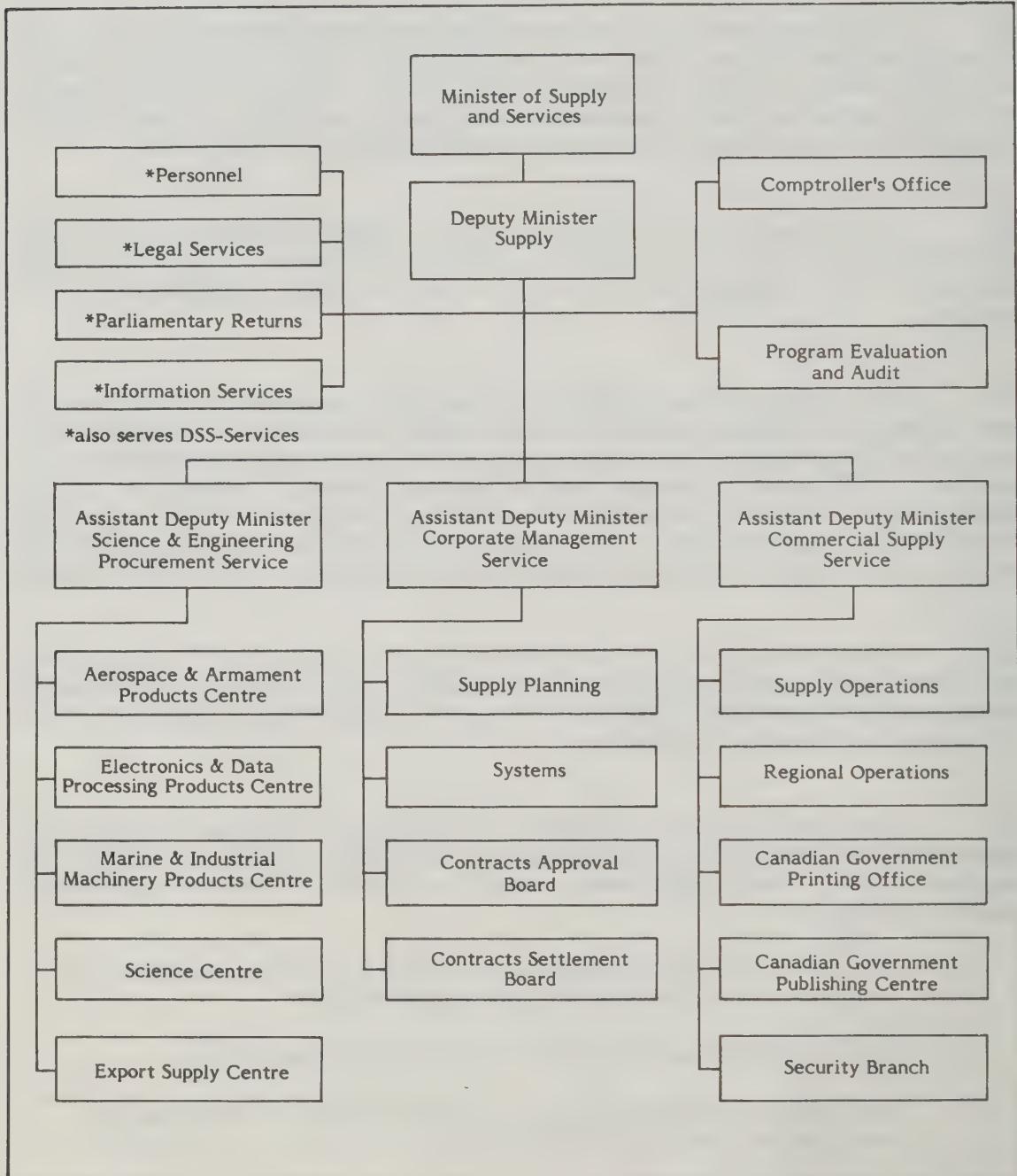
**9.4** The primary objective of DSS-Supply as stated in the Estimates is "to acquire and provide in the most economical manner goods and services required by departments and agencies, taking into account the contribution of procurement to the realization of national objectives."

**9.5** Section 5 of the Department of Supply and Services Act gives the Minister of the Department jurisdiction over all matters, which are "not by law assigned to any other department, branch or agency of the Government of Canada, relating to

- (a) the acquisition and provision of articles, supplies, machinery, equipment and other materiel for departments;
- (b) the acquisition and provision of services for departments;
- (c) the planning and organizing of the provision of materiel and services required by departments; and
- (d) the acquisition and provision of printing and publishing services for departments."

**DEPARTMENT OF SUPPLY AND SERVICES  
SUPPLY ADMINISTRATION**

**SUMMARY ORGANIZATION CHART - 31 MARCH 1980**



**9.6** The Minister is also required under section 5 of the Act to "investigate and develop services for increasing the efficiency and economy of the public service of Canada".

**9.7** In addition, the Defence Production Act, R.S.C. 1970, c. D-2, assigns to the Minister of Supply and Services certain responsibilities for the acquisition of military materiel and for ensuring the availability of defence supplies.

**9.8** Services of DSS-Supply include:

- assistance in defining materiel and service requirements;
- warehousing, and the storage and distribution of commonly used commercial products (Stocked Item Supply);
- traffic management, including travel and reservation services, movement of personal and household effects, and freight audit and payment;
- maintenance and repair of office equipment and furniture, and associated advisory services;
- security and assets management, including management services related to the maintenance of Crown-owned production assets, the care and custody of standby defence plants, and advisory services on physical security systems, personnel security, access control and identification; and
- expositions, including arranging to provide displays, exhibits and audio-visual services on behalf of departments and agencies.

## **Organization**

**9.9** DSS-Supply has two main operating divisions, Science and Engineering Procurement Service, and Commercial Supply Service. A Corporate Management Service provides functional direction in DSS-Supply for planning, systems and contract approval. In addition, there are the Comptroller's Office and the Program Evaluation and Audit Sector reporting directly to the Deputy Minister. Exhibit 9.1 shows a summary organization chart.

**9.10** The Science and Engineering Procurement Service (SEPS) is divided into five product centres, each specializing in a separate area of procurement.

**9.11** The Commercial Supply Service (CSS) includes printing, publishing, security, supply operations and regional operations. Supply Operations is divided into five product centres: Food, Drug and Textiles; Office, Mechanical and

Construction; Transportation and Energy; Professional and Special Services; and the Canadian Government Expositions Centre. The majority of the contracts for these centrally located product centres are awarded by the eight regional supply centres: Atlantic, Quebec, Capital, Ontario, Manitoba, Western, Pacific, and European. However, the value of contracts awarded in the regions represents less than 20 per cent of the total dollar value of the contracts placed annually by DSS-Supply.

## **Environment**

**9.12** DSS-Supply is a common service agency operating under a system of revenue dependency. The funds necessary to carry out its operations are obtained by charging fees to customer departments for services provided. The fee for each separate service is calculated on the basis of individual service rates which are included in a Rate and Person-year Submission approved annually by the Treasury Board. For 1979-80, revenues totalled \$362,647,000, which included fees of \$146,840,000 for services provided. In addition, customer departments were charged \$215,807,000 to recover costs incurred by DSS-Supply, primarily in relation to printing, stocked item supply and traffic management.

**9.13** The fees for acquisition services are generally calculated as a percentage of acquisition cost, at varying percentages based on the total price. The 1979-80 commercial acquisitions fee rate varied from 4 per cent for acquisition costs under \$2,500 to 0.8 per cent for costs of \$1 million or greater. Science and engineering acquisition rates varied from 6.25 per cent for acquisitions under \$128,000 to 1.25 per cent where the cost was \$1.6 million or greater. Fees for acquisitions in excess of \$50 million were negotiated individually for each acquisition.

**9.14** For printing services, where DSS-Supply does the printing for another department, the charge includes both the cost of printing and a 4 per cent service charge.

**9.15** Almost all government contracts for goods and related services are awarded by DSS-Supply. Total procurement for 1979-80 contracted through DSS-Supply was \$2.9 billion. Annual revenues are dependent primarily on the level of government requirements for goods and services, which may vary substantially from year to year.

## **Resources**

**9.16** The 1979-80 Estimates present the following summary of DSS-Supply's authorized person-years, expenditures, and revenues from services provided.

<u>Activity</u>	<u>Person-years Authorized</u>	<u>Expenditures</u>	<u>Revenues</u>
		(thousands of dollars)	
Requirements Definition	47	\$ 1,742	\$ 1,527
Acquisitions	2,088	75,593	76,996
Maintenance and Repair Services	90	4,821	4,960
Warehousing and Distribution	524	62,307	61,957
Traffic Management	79	78,366	78,181
Security and Assets Management	15	861	754
Printing Services	1,705	142,884	143,014
Publishing	170	11,167	10,790
Expositions	129	10,639	10,031
<b>Total</b>	<b><u>4,847</u></b>	<b><u>\$ 388,380</u></b>	<b><u>\$ 388,210</u></b>

### Audit Scope

**9.17** Our comprehensive audit of DSS-Supply included a review of its major activities, with particular emphasis on those related to the acquisition of goods and services.

**9.18** We examined planning, control and reporting systems, including those for financial management and control. To determine whether satisfactory procedures had been established to measure and report on the effectiveness of programs, we reviewed DSS-Supply's statement of its objectives and the systems that had been developed to measure achievement of these objectives. We evaluated internal audit goals, plans, standards and procedures.

**9.19** Our audit was carried out in co-ordination with the government-wide study of materiel management, reported in Chapter 2 of this Report, which examined materiel management functions in government as a whole, including the role of the Supply Administration.

### Summary of Audit Observations

**9.20** DSS-Supply was created as a common service agency to provide a consolidated government supply function which would plan and organize the provision of materiel and services, acquire such materiel and services as are required by departments and agencies, and advise them in areas in which DSS-Supply has expert knowledge.

**9.21** We found that there was no clear mandate for DSS-Supply, with well defined responsibilities and clear limits of authority. There are different views on whether common service agencies are service organizations or whether they also have some control responsibilities. DSS-Supply believes that its role is strictly that of a service organization with no government-wide control function. Central

agencies have not taken the action necessary to clarify DSS-Supply's role in government-wide materiel management.

**9.22** For stages in the contracting process clearly within the responsibility of DSS-Supply, we found its activities were generally being carried out in a proficient manner and in compliance with prescribed government standards.

**9.23** A number of problems have arisen in relation to those stages in the contracting process where DSS-Supply and customer departments shared responsibilities and accountability. These include the definition of requirements, life cycle costing and the evaluation of supplier performance. We found many instances where shared responsibilities which were not clearly defined resulted in disputes, dissatisfaction with products and services received, and wastage through products and services failing to meet program requirements.

**9.24** We found that DSS-Supply did not have adequate procedures in place to measure its effectiveness in attaining economy of procurement, meeting departmental requirements and contributing to national objectives. It has recognized this deficiency and expects to be able to begin measuring program effectiveness through the Program Evaluation Branch which was created for this purpose in the fall of 1979. In the case of national objectives, we are recommending that DSS-Supply seek to have its contribution in this area measured by the policy departments with direct responsibilities for monitoring the achievement of these objectives.

**9.25** DSS-Supply began operating under revenue dependency in 1973 and believes that it has successfully made visible to customer departments the full costs of services provided, although the rate structure devised for calculating charges to customers has caused some dissatisfaction. The reasons for this have been recognized and addressed through the Rate Structure Study started in 1979, and DSS-Supply intends to modify the present system on the basis of the findings of the study. We found that the concept of revenue dependency has fitted in well with DSS-Supply's financial management structure.

**9.26** The creation of the Comptroller's Office in 1977 and the support given to this function have strengthened financial management in DSS-Supply. We found that the controls over the financial management and information systems were generally adequate. Certain improvements were needed, however, to ensure the completeness and accuracy of financial information.

#### **Observations and Recommendations**

#### **Effectiveness Evaluation**

**9.27** The objective of this part of our audit was to determine whether DSS-Supply had established satisfactory procedures to measure and report on the

effectiveness of its programs. We examined the program objectives of DSS-Supply to determine how clearly they were stated and whether program effectiveness was being measured where it would be reasonable to do so. Where measures were being used, we assessed whether they were appropriate.

**9.28**      DSS-Supply's objectives, as stated in the 1979-80 Estimates, are:

To acquire and provide in the most economical manner goods and services required by departments and agencies, taking into account the contribution of procurement to the realization of national objectives.

To encourage research and development in the private sector which contributes to departmental programs and to provide free and subsidized distribution of saleable government publications in accordance with established policies.

**9.29**      The DSS-Supply objectives are further defined by a number of Treasury Board policies, directives and regulations, most of which are contained in the *Administrative Policy Manual*. These policies and directives provide guidance on the relationship between DSS-Supply and its customers.

**9.30**      **Planning and organizing of the provision of materiel and services required by departments.** Section 5 of the Department of Supply and Services Act provides the Minister of Supply and Services with jurisdiction over all matters related to the "planning and organizing of the provision of materiel and services required by departments". However, the planning and organizing requirements of the Act do not appear in the objectives stated in the Estimates, and DSS-Supply has carried out the role of a service agency, for the most part responding to the demands of government departments.

**9.31**      No clear direction has been given by the Treasury Board or Privy Council Office that would resolve this ambiguity. Some Treasury Board directives have tended to increase uncertainty over the role of the common service agency and its relationship with its customers. For example, the *Administrative Policy Manual* chapter on office equipment and supplies (APM c. 235) requires that DSS-Supply "shall review all requisitions for the purchase or rental of photocopying, text editing, word processing, central dictation and microfilm equipment, as well as service contracts contemplated by departments for services using such equipment." This Treasury Board directive gives a monitoring responsibility to DSS-Supply that goes beyond a purely service role.

**9.32**      DSS-Supply has attempted in the past to increase its role in planning and organizing the provision of materiel and services required by departments. In 1973, it proposed that an Integrated Federal Supply System be set up, which would have consolidated all materiel management within DSS-Supply. This proposal was not accepted by the Privy Council Office and the Treasury Board Secretariat.

Instead, a senior level inter-departmental Supply Advisory Committee was formed to improve materiel management in government.

**9.33** The lack of clarity concerning the functions and objectives of common service agencies was commented on by the Royal Commission on Financial Management and Accountability (Lambert Commission). The Commission has stated that "there is confusion with respect to the roles and responsibilities of common service organizations and program departments concerning the provision of materiel and services." Without a clear definition of its role and responsibilities, DSS-Supply cannot measure its effectiveness in planning and organizing the provision of materiel and services.

**9.34** *DSS-Supply should seek to have its role in planning and organizing the provision of materiel and services clarified.*

**9.35 Acquiring and providing in the most economical manner.** DSS-Supply has stated that its objective is to acquire and provide goods and services in the most economical manner. However, it had not evaluated the practicality of developing measurements systems to determine whether it was meeting this objective. DSS-Supply has instead concentrated on procedures to ensure that the best value was obtained for each contract.

**9.36** Recognizing a need to evaluate its effectiveness in acquiring goods and services in the most economical manner, DSS-Supply created a Program Evaluation Branch in the fall of 1979. This Branch is responsible for the planning, organization and conduct of program evaluation in DSS-Supply. Because the Branch was just commencing its operations at the time of our audit, we are unable to comment on its activities.

**9.37 Satisfying departmental requirements.** According to the Treasury Board *Administrative Policy Manual* chapter on contracting (APM c. 310), "The purpose of government procurement is to acquire goods and services through the contracting arrangements that best satisfy specific program requirements of the government." These requirements can be deemed to be satisfied if the customer department is satisfied with the level of service provided by DSS-Supply, the usefulness of the good or service provided and the extent to which the supplier complied with the terms of the contract.

**9.38** DSS-Supply had not measured or evaluated customer satisfaction on a consistent or comprehensive basis. In some product centres and regional supply centres, measurement procedures such as listing numbers of complaints, or issuing questionnaires to departments concerning supplier performance, have been initiated, but these initiatives have not provided a satisfactory basis for measuring customer satisfaction. No guidelines had been developed to ensure a consistent and reliable approach in all product centres and regional supply centres.

**9.39** DSS-Supply should evaluate how well it is satisfying the requirements of its customer departments.

**9.40 Contributing to the realization of national objectives.** Government policy on contracting requires that it "shall be conducted in a manner which will, when appropriate, relate to national policies and objectives." DSS-Supply has included in its objectives in the Estimates "taking into account the contribution of procurement to the realization of national objectives."

**9.41** For contracts with a value greater than \$2 million or with significant socio-economic impact, inter-departmental procurement review committees have been established to take into consideration possible contributions to national objectives. For these projects, DSS-Supply is not responsible for determining the effectiveness of achieving national objectives; instead, the policy departments (such as Regional Economic Expansion, and Industry, Trade and Commerce) represented on the committees are assigned that responsibility.

**9.42** Procurement not subject to review by a procurement review committee amounted to \$1.86 billion in 1979-80. This procurement must still, when appropriate, meet national objectives. Based on policies developed inter-departmentally and approved by Treasury Board or the Cabinet, DSS-Supply has prepared a number of inter-program policy initiatives to guide such procurement. These have not subsequently been formally reviewed with the relevant policy departments or with the Treasury Board Secretariat. DSS-Supply defines these inter-program policies in its Policy Guidelines in the following manner:

- to increase procurement activities in the eight identified regions where the level of unemployment has been highest in Canada, as a means of promoting the economic prosperity of these regions;
- to increase the access of Canadian firms, especially small businesses, to sub-contracts awarded by the DSS-Supply prime supplier;
- to promote the use of co-operative supply arrangements with the provinces to achieve cost savings for both goods and services as well as to enhance industrial development opportunities;
- to provide where possible adequate, stable and continuing market outlets for goods manufactured in Canadian Correctional Services facilities;
- to support small Canadian businesses through the procurement process;
- to provide market outlets where possible for goods or services produced in workshops for the disabled; and

- when the final point of use of a product is the Atlantic or the Western Provinces, purchases will be made from suppliers in these regions, provided that there is adequate competition in the regions to guarantee a fair return on the moneys expended. Further, in line with specific government objectives concerning the contracting-out of research and development work, the selection of suppliers should reflect the aim of distributing resulting industrial benefits as widely as possible to the various regions of Canada.

**9.43** For contracts of less than \$2 million, we found that DSS-Supply had not adequately analysed the effect that its acquisition of goods and services has had on contributing to the realization of national objectives. Some guidelines existed for the application of inter-program policies, but interpretations differed as to how and when to use procurement in this way. Some of the policy initiatives were clearly defined in measurable terms, but others were not specific.

**9.44** We believe that it would not be practicable or desirable to maintain the analytical capability within DSS-Supply to evaluate the effectiveness of procurement in achieving national objectives. It would be more logical for DSS-Supply to assist policy departments in making such evaluations.

**9.45** DSS-Supply should:

- co-operate with other government departments in the identification of those national objectives where procurement can make a significant contribution, and should assess the impact that these objectives would have on DSS-Supply's ability to meet its other objectives;
- develop and present its plans concerning national objectives, including cost and benefit implications, to the Treasury Board Secretariat for approval;
- develop guidelines governing the application of its policy on national objectives; and
- arrange to have policy departments analyse, with its assistance, the impact of procurement activities on the attainment of national objectives.

### **The Contracting Process**

**9.46** The Department of Supply and Services Act and government contracting directives and guidelines clearly establish that the overall government contracting responsibility for acquiring goods and services rests with DSS-Supply and includes:

- procurement planning;
- maintaining a source list of suppliers;
- sending out requests for proposals;
- analysing responses and evaluating tenders;
- selecting suppliers;
- defining the terms of the contract;
- managing contracts with respect to monitoring time, cost and performance; and
- post-contract evaluating of suppliers.

**9.47** Total government purchases of materiel and related services contracted through DSS-Supply were \$2.9 billion for 1979-80 and \$2.6 billion for 1978-79.

**9.48** Major areas of contracting activity within DSS-Supply include:

- Commercial Supply Product Centres and Regional Supply Centres, which contract for commodities such as office products, vehicles, fuel and textiles, and for professional services, as well as acquiring and providing printing and publishing services; and
- Science and Engineering Product Centres, which contract for commodities such as aircraft, ammunition, computers, ships and industrial machinery, and for related services.

**9.49** DSS-Supply responsibilities within the overall government procurement process are illustrated in the Contracting Activity Summary (Exhibit 9.2).

**9.50** The contracting process is an integral part of the operations of DSS-Supply, and has cost implications for government that go far beyond the costs incurred by DSS-Supply in providing its services. The overall objective of the contracting process is to provide goods and services in the most economical manner.

**9.51** **DSS-Supply contracting responsibilities.** For stages in the contracting process clearly within the responsibility of DSS-Supply, we found its activities were generally being carried out in a proficient manner and in compliance with prescribed government standards.

**9.52** We found that improvements had been initiated in the contracting process in several areas where DSS-Supply believed that revised contracting procedures would result in better overall economy. Specifically, revised policies and guidelines on standing offers have been developed. (A standing offer is an agreement whereby a supplier undertakes to supply, on demand, goods or services at a stated price.) The Standing Offer Co-ordinating Office has been formed to provide a central point of information on standing offer activity in DSS-Supply and to promote the development and standardization of practices associated with the use of standing offers as a method of supply.

**9.53** In addition to encouraging better use of standing offers, DSS-Supply has made efforts to develop other means of providing faster service and reducing administrative handling costs on low dollar value purchases. These include the introduction of simplified buying methods, together with procedures intended to prevent loss of control.

**9.54** However, improvements can still be made in some parts of the contracting process, primarily by providing guidelines and procedures to give better direction to DSS-Supply personnel and to assist management in monitoring operations.

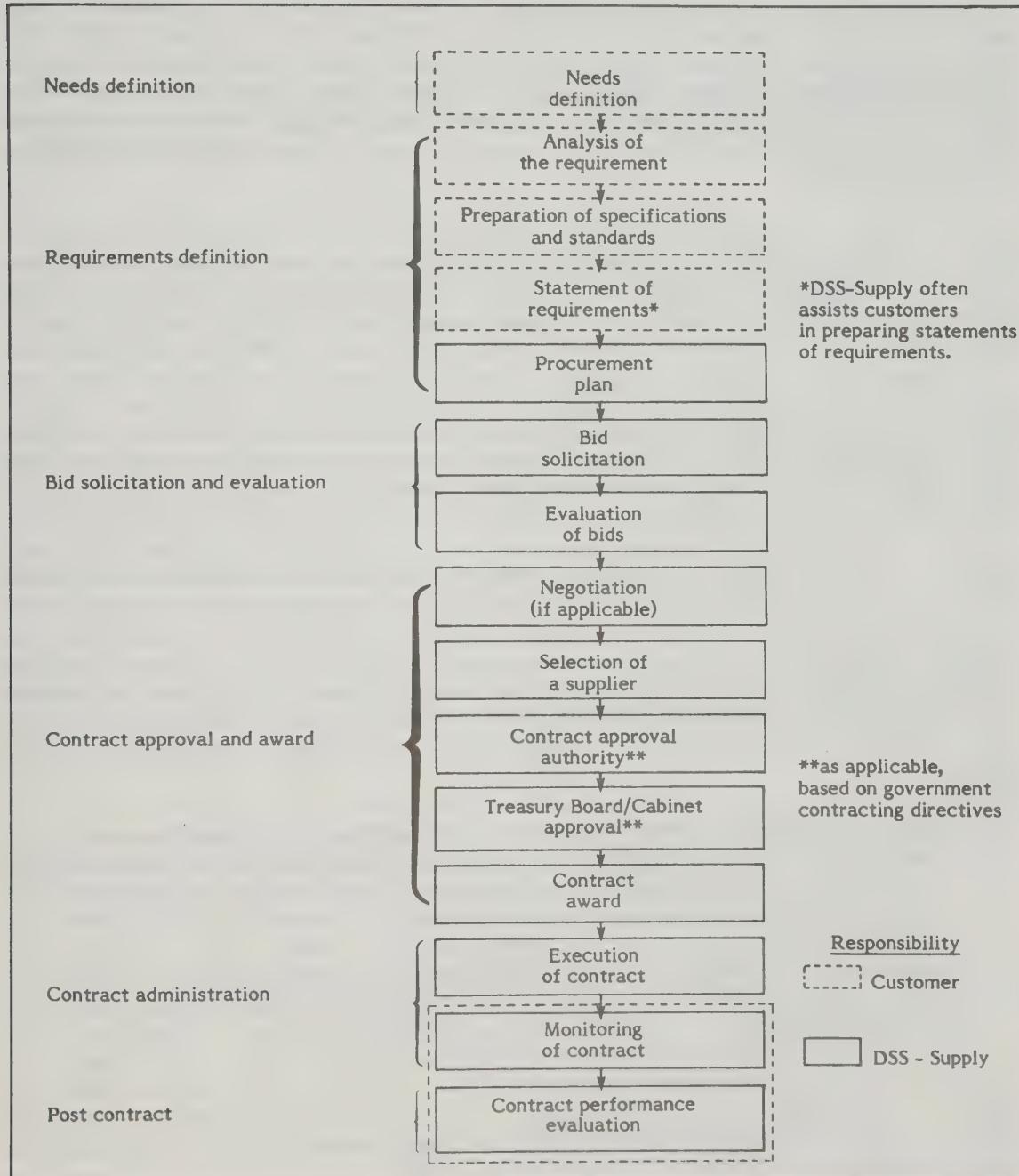
**9.55 Facility evaluation.** Facility evaluation is defined as the examination of a firm's capabilities as a source of supply. Guidelines to assist in the consistent evaluation of suppliers were lacking. As a result, the timing, method and quality of supplier facility evaluations, and the emphasis placed on them, varied, and comparisons between suppliers based on such evaluations led at times to inequities.

**9.56** *DSS-Supply should develop facility evaluation guidelines and ensure their consistent application.*

**9.57 Vendor information.** Numerous sources of information about vendors exist in DSS-Supply -- in product centres and regional supply centres as well as in vendor files kept by the Supply Information and Data Management Branch. We believe that there is a need to consolidate vendor data to ensure that a more complete record of vendor information is available in one location. The lack of central consolidation of vendor information, particularly adverse information, could result in selection of an unsuitable supplier.

**9.58** *DSS-Supply should consolidate information on suppliers and develop procedures to ensure that information is updated on a regular basis and made available to all product centres and regional supply centres.*

**DEPARTMENT OF SUPPLY AND SERVICES  
SUPPLY ADMINISTRATION  
CONTRACTING ACTIVITY SUMMARY**



**9.59 Shared responsibilities with other departments.** We found that problems existed in the contracting process. In some cases purchasing was not being carried out in the most economical manner in areas where responsibilities were shared with other departments.

**9.60 Requirements definition.** The requirements definition function involves translating customer needs into clear specifications of the item or service to be acquired, together with an estimate of costs. An accurate definition of customer requirements is a vital part of the contracting process. It has a major impact on whether the acquisition that follows will be made in the most economical manner. Errors in specifications, omissions or poorly-defined requirements can lead to purchases that do not satisfy customer needs. Money wasted by buying the wrong product may lead to further costs through unnecessary repairs, storage and disposal, plus the time wasted at many levels trying to determine what went wrong.

**9.61** We found that operating personnel often did not understand why they had been supplied with items which were unsuitable for the job to be done. Disputes arose over whether the customer department or the contracting agency, DSS-Supply, was to blame for the unsatisfactory result. Where we found the acquisition of an unsuitable product, we also found that it was often not clear who had the final responsibility for ensuring the adequacy of the contract specifications. Contract clauses specifying damages where delivery dates are not met are frequently not enforceable if delays are caused by poor requirements definition rather than being the fault of the supplier.

**9.62** In principle, responsibility should be clear, since Treasury Board contracting policy specifies that "final approval for requirements definition rests ultimately with the client department." DSS-Supply, however, is also assigned certain responsibilities through these contracting policies. For example, "within the requirements definition process there are activities which should be carried out by the common service agency because of its expertise in the particular area or to facilitate the safeguarding of fair and equal treatment of suppliers." And further:

Client departments should also avail themselves of the expertise of the common service agency during the preparation of a detailed statement of requirements (e.g. plans and specifications) to ensure that the subsequent contracting phases can be achieved in accordance with the objectives stated in these policies. The common service agency can often provide sound advice on possible changes in the statement of requirement that will serve the best overall interest of the government...

**9.63** In areas where DSS-Supply has considerable expertise and the customer has relatively little, the customer may assume that the requirements definition phase is being looked after completely by DSS-Supply, although no

formal arrangement has been made to assign that responsibility. We found that where responsibilities had become confused in this fashion, an unsatisfactory requirements definition was likely to result, the ripple effect of which permeated the entire life cycle of the good or service acquired.

**9.64** In summary, many of the instances which we found of departmental dissatisfaction with the contracting process arose from situations where the requirements definition had been deficient and responsibility for the deficiency was disputed.

**9.65** *DSS-Supply should request that central agencies establish a clearer definition of responsibilities for requirements definition for both DSS-Supply and customer departments.*

**9.66 Life cycle costs.** Contracting directives provide that "Government contracting shall be conducted in a manner which will achieve the optimal combination of quality, time and the total life-cycle costs of the acquisition...". All relevant costs of the acquisition over its useful life are to be considered, not solely the original cost.

**9.67** We found that DSS-Supply did not always consider total life cycle costs in awarding contracts. In many cases, life cycle cost data were not provided by customer departments or were inadequate. In other instances, only the initial acquisition cost was considered in the selection of a supplier, although consideration of other life cycle costs might have resulted in the choice of a different supplier. We believe that insufficient emphasis is placed on considering the total cost of an acquisition over its useful life.

**9.68** *DSS-Supply should establish criteria for the preparation of guidelines by customer departments to assist them in providing life cycle cost information.*

**9.69 Contract performance evaluation.** Treasury Board contracting directives provide that "the common service agency is responsible for the contractual evaluation of the contractor" and "the client department is normally responsible for the technical evaluation of goods and services".

**9.70** We found that DSS-Supply did not evaluate contractor performance on a timely basis so as to ensure prompt close-out of contract files and provide relevant updated vendor information for current use. Prompt and systematic evaluation of contractor performance is necessary to provide product centres and regional supply centres with objective assessments of a supplier's current capability.

**9.71** DSS-Supply should develop and implement policies and guidelines for the prompt and systematic evaluation of contractor performance.

### **Revenue Dependency**

**9.72** The concept of revenue dependency involves the need to recover all costs incurred in providing services to customer departments and agencies by charging customers for those services. Fees are based on rates and rate structures approved annually by the Treasury Board.

**9.73** In 1973, DSS-Supply became fully dependent on revenue received from its customers. In the implementation plan prepared in 1972, DSS-Supply states that:

In becoming fully revenue dependent it is seeking, by providing total cost visibility, to measure and improve performance internally and, externally, to provide Treasury Board staff with the means of reviewing rate structures and charges, and customer departments and agencies with a further incentive for reducing the total costs of existing Government supply arrangements.

**9.74** DSS-Supply has recently further defined its revenue dependency concept, identifying three basic principles to be applied:

- i) **Equitability:** Insofar as it is administratively feasible and cost-effective, the Supply Program rate structure should ensure that customers are charged in accordance with the costs incurred in fulfilling their service demands.
- ii) **Simplicity:** In order to promote clear identification by customers of fees with the value of service provided and to minimize the cost of the billing system, the Supply Program rate structures should be cast in the practical format, bearing in mind the primary importance of equitability and considering the interests of all parties.
- iii) **Incentives:** Supply Program rate structures should incorporate the type of incentives necessary to encourage increased cost-consciousness and economy on the part of both the Supply Administration and its customers.

**9.75** The revenue dependency definition also states that "rates charged to customers should be fair and reasonable in relation to the value of the services provided; be subject to critical review by the Treasury Board in consultation with customer departments; and meet the test of comparison with other sources of supply whenever such comparisons are available."

**9.76 Rate structure.** When DSS-Supply became fully revenue dependent in 1973, it instituted a rate structure which was based on a study carried out in 1970 and 1971. This study recommended a simple, easily administered rate structure which provided rates that would result in total revenue for each different service equal to the total costs of providing the service. The study suggested that for any service provided to an individual customer, the level of effort did not need to correspond to the amount charged to that customer, but, on average, the billings to customer departments should recover the costs incurred on their behalf.

**9.77** We found that the basic rate structure concept had not changed since 1973, although each year's Rate and Person-year Submission to Treasury Board requesting rate and rate-structure approvals included some modifications to the percentage rates and formulas used in calculating rate charges.

**9.78** DSS-Supply has concluded that revenue dependency has met its initial objectives of providing total cost visibility, providing Treasury Board with the means to review rate structures and charges, and assisting in reducing total government supply costs. Although DSS-Supply believes that the adoption of revenue dependency has been beneficial, there are certain problems which have been created by the present rate structure and have not yet been overcome.

**9.79** For acquisition services, we found that the current rate structure:

- does not ensure that individual charges to customer departments reflect the actual effort expended by DSS-Supply in providing services to them;
- automatically provides greater revenue for DSS-Supply as the acquisition cost increases; and
- does not provide separate rates by commodity and by product centre. As a result, the evaluation of product centre performance is made more difficult, since some product centres invariably have revenues in excess of expenses and others have the reverse.

**9.80** DSS-Supply had recognized that modifications to the rate structure were required and in 1979 commenced a Rate Structure Study. The terms of reference provide for the study to assess the feasibility of establishing rates by product centre or commodity and also to examine possible charging arrangements for contractual procedures such as standing offers and contract amendments. After the results of the study are known, the rates charged to customer departments and agencies will be reviewed and altered, if necessary, to be more in line with the actual level of effort.

**9.81** *Revisions to the rate structure are required and should be made.*

**9.82** *Once the revisions have been implemented, the rate structure should be reviewed regularly to ensure its continuing validity.*

**9.83** **Rate and Person-year Submissions.** The annual Rate and Person-year Submissions to Treasury Board include a forecast of costs, resource requirements and business revenues for the coming year as well as performance indicators related to the various services which DSS-Supply provides.

**9.84** We found that the forecasting of business volume had been carried out in a variety of ways. Some variation in forecasting methods is necessary because of the differing types of goods and services provided. However, DSS-Supply had not provided direction on forecasting techniques to be used. Business volume forecasts had not been subjected to adequate review within DSS-Supply and had not always been supported by sufficient documentation.

**9.85** *The underlying assumptions and forecasting techniques used in the preparation of business volume forecasts for Rate and Person-year Submissions to Treasury Board should be reviewed, and the forecasts should be subjected to a more rigorous quality control review.*

**9.86** Many of the performance indicators included in the Rate and Person-year Submissions did not provide adequate information on which to base an assessment of the validity of DSS-Supply's resource requirements. For example, we found that some of the indicators were general averages and were not directly related to actual workloads. They did not therefore provide useful comparisons with prior years.

**9.87** *DSS-Supply should review the performance indicators currently contained in the Rate and Person-year Submissions and revise them where necessary to make them more useful.*

**9.88** Departments have been required to use DSS-Supply services in contracting for goods and services without being given a formal opportunity to comment on existing rates or proposed changes in rates.

**9.89** *Formal procedures should be developed to ensure that customer departments are given an opportunity to participate in the rate review process.*

## **Planning**

**9.90** DSS-Supply has developed a comprehensive planning process, made necessary by its complex environment and by the diverse materiel and services that it supplies to other departments. The planning process provides a communications network for responsibility centre managers to express their needs and expectations formally; it also allows managers to propose ways in which those needs and expectations can be fulfilled.

**9.91** The main planning process incorporates strategic planning, rate and person-year planning, and operational planning. Strategic planning results in a role and mission assessment every 10 years and a general framework of objectives, presented as a corporate plan, every three years.

**9.92** Because DSS-Supply is revenue dependent, a Rate and Person-year Submission is required annually. The rate and person-year plan, from which the Submission is derived, makes use of the corporate plan, market knowledge and customer information. After approval by Treasury Board, the Submission forms the basis for the Estimates.

**9.93** Operational planning makes use of the information developed during strategic planning and rate and person-year planning to develop an accountability agreement between the responsibility centre manager and senior management. Each responsibility centre prepares annually an operational plan which receives formal approval from the Deputy Minister. The operational planning process also contains mechanisms for feedback and control.

**9.94** There are other planning processes, such as procurement planning and policy planning, which are not part of the main process identified above. Procurement planning is done for individual contracts and is particularly important for all large, complex or sensitive purchases. Policy planning is done to identify the need for changes in departmental policies and to ensure that such changes are clearly communicated to appropriate officers in a timely fashion.

**9.95** As a result of our examination of the planning process and of the documentation related to plans, we concluded that the planning structure had, in general, been well developed and was appropriate. Planning systems were generally well defined with clear responsibilities. The planning process had been timed and sequenced to allow for appropriate integration of plans, and was being monitored and evaluated, although the corporate planning process had not maintained an adequate planning horizon.

**9.96** The corporate plan covers a three-year period, and is not updated or extended during its existence. Thus, after two years the corporate plan only claims validity for one more year, the same time span as the operational plans.

Events occurring during the first year or two of the plan may adversely affect the relevance of the balance of the plan. Responsibility centre managers need to have an indication of changes in corporate strategy at as early a date as possible to be able to prepare good operational plans.

**9.97** *DSS-Supply should update and extend its corporate plan annually.*

**9.98** Although the planning structure was appropriate, the operational plans which resulted from the planning process were not satisfactory for accountability purposes. In reviewing the operational plans, we found that managers' goals for improvement were generally not reflected in budgets and that the goals had not been translated into action plans or milestone dates. We also found that many of these goals were vaguely worded. Vague goals do not provide a clear accountability contract.

**9.99** *DSS-Supply should ensure that operational plans are clear statements of results to be achieved which contribute to DSS-Supply objectives, contain specific action plans, milestone dates and completion dates, and are reflected in responsibility centre budgets.*

**9.100** On an individual basis, operational plans have been linked to corporate plans. There has been, however, little analysis by DSS-Supply of the total impact that individual operational plans would have in achieving the goals stated in the corporate plans. Although progress toward the corporate plan was considered during the review of operational plans, this was not always sufficient to determine if and when the goals stated in the corporate plan might be accomplished.

**9.101** *DSS-Supply should determine whether the operational plans in total have the potential of achieving the goals stated in the corporate plan.*

### **Financial Management and Control**

**9.102** The position of Comptroller, Supply Administration, was established in July 1977. The Comptroller reports directly to the Deputy Minister and is a member of the senior management committee of DSS-Supply. He is responsible for the quality and reliability of all financial management and control systems, including budgetary systems.

**9.103** The financial performance of the responsibility centres is monitored regularly, mainly through statements of revenue and expenditures which are prepared for each centre. Evaluation of management performance is aided by the fact that management has a "bottom line".

**9.104** We found that the controls over the financial management and information systems were generally adequate. Certain improvements were needed, however, to ensure the completeness and accuracy of financial information. For example, we found that the controls over certain types of financial transactions required strengthening to reduce the possibility that error or loss could occur. We have reported these control deficiencies to DSS-Supply, who are taking corrective action.

**9.105** We are satisfied that most of the recommendations made as a result of our 1974-75 Financial Management and Control Study have been acted on. However, two recommendations were still not fully implemented. The first recommended elimination of the duplication that existed among certain financial systems and the second was aimed at ensuring the review of budgets by the Comptroller. These are discussed below.

**9.106** DSS-Supply is developing a financial reporting system designed to meet, to a greater extent, the information requirements of its managers. Duplication and inefficiencies in the existing systems, which have been identified in previous studies and reports, are being addressed in a new integrated system, which is scheduled to become operational by June 1981.

**9.107** Although the Comptroller's Office had been gradually extending its activities and its functional direction of financial operations since the Comptroller's appointment, we found there was a need for greater involvement by his Office in the financial activities of the operating divisions, particularly in the budgetary systems.

**9.108** The Comptroller is responsible for systems relating to the preparation and control of budgets to be included in the Rate and Person-year Submissions and operational plans. Guidelines have been issued for the preparation of these budgets. However, these did not include the extent of documentation and review required or procedures for the preparation of business volume and revenue forecasts, including an evaluation of the reasonableness of the assumptions used in preparing the budget.

**9.109** *The Comptroller's Office should take a more active role in the review of budgets and in monitoring the budgetary control systems in the operating divisions. Budget guidelines should be expanded to cover forecasting documentation and review procedures.*

**9.110** Evaluations had not been carried out by the Comptroller's Office of the validity of financial performance indicators, particularly those contained in the Rate and Person-year Submissions and quarterly management reports.

**9.111** *The Comptroller's Office should evaluate the existing methods of measuring financial performance to ensure that they are adequate.*

### **Internal Audit**

**9.112** *The Supply Audit Branch, which in 1979-80 had a staff of 24 and a budget of \$966,000, performs the internal audit function in DSS-Supply and is part of the Program Evaluation and Audit Sector. The Director General of this Sector reports directly to the Deputy Minister.*

**9.113** *The Supply Audit Branch carries out internal audits categorized as financial, functional, operational and directed. Overall direction is provided by an Audit Committee which is headed by the Deputy Minister and includes the three Assistant Deputy Ministers, the Comptroller and the Director General, Supply Planning. The leadership and support provided by senior management through the Audit Committee has enhanced the status of the Supply Audit Branch throughout DSS-Supply.*

**9.114** *We found that audits were being adequately planned and executed, and that significant improvements had been made in establishing audit plans, methodology and procedures for these audits. However, time budgets were not being used to forecast and control time on specific audit projects.*

**9.115** *Although the Supply Audit Branch was supplied with quarterly reports which indicated when its recommendations from operational audits had been implemented, it did not monitor implementation until the next operational audit. Operational audits are completed once every three years.*

**9.116** *Internal audits should be controlled by time budgets.*

**9.117** *Major observations on operational audits should be followed up promptly by the Supply Audit Branch to ensure that implementation has been satisfactory.*

**9.118** *The operational audits carried out to date have been done on a responsibility or product centre basis. Very few internal audits directly addressed department-wide processes and issues, such as contract amendments and supplier evaluations.*

**9.119** *Internal audit activities within DSS-Supply should include a systematic review and assessment of all department-wide processes and issues.*

## **Contract Audits**

**9.120** Many government contracts with suppliers include phrases such as "may be verified by government audit", giving DSS-Supply authority to carry out contract audits. If such audits of suppliers are considered necessary, they are, in most cases, carried out by the Audit Services Bureau (ASB) of DSS-Services. An annual agreement sets out the terms of the services to be provided by ASB; the types of services provided are set out in the *Supply Policy Manual*. The value of contracts audited during 1979-80 amounted to \$316 million; audit fees paid to ASB by DSS-Supply totalled \$1.7 million.

**9.121** We reviewed the policies and procedures relating to the use of the Audit Services Bureau by DSS-Supply to assess whether the Supply Administration had established adequate procedures for monitoring supplier contract audits.

**9.122** DSS-Supply has set a dollar limit to establish which contracts are to be audited by ASB. This limit had not been cost-justified within the past two years to determine whether the audit coverage was too little or too much and whether the most suitable types of contracts had been selected for audit. In addition, time budgets submitted by ASB were not being used by DSS-Supply to monitor the time spent by ASB on individual audits.

**9.123** DSS-Supply should review the criteria used to select contracts for audit by the Audit Services Bureau to determine their appropriateness.

**9.124** DSS-Supply should use time budgets to monitor the audits performed by the Audit Services Bureau.

**9.125** On completion of contract audits by ASB, no centrally approved procedures existed to control refunds, if moneys were determined to be owing to the Crown. In some cases, refunds were made by suppliers directly to the departments who had paid for the original purchase; in other cases, payments were made to DSS-Supply.

**9.126** DSS-Supply kept a memorandum record of refunds owing, but its role in the collection process was unclear, and there was no adequate provision for ensuring that all amounts receivable were subsequently collected.

**9.127** DSS-Supply should request clarification from central agencies on its responsibility for controlling amounts receivable by the Crown as a result of overpayments identified by contract audits.

### **Stocked Item Supply**

**9.128** Commercial products in wide general use throughout government, including office furniture and office supplies, are acquired by DSS-Supply, stored in regional warehouses and 10 self-service stores, and sold from these locations to customer departments and agencies. Control over these inventories is exercised by Stocked Item Supply (SIS), which is a part of the Warehousing and Distribution activity carried out by the Supply Administration. SIS revenues were \$45 million in 1979-80; inventories at 31 March 1980 were \$14 million.

**9.129** A centrally maintained computer network system carries out all record-keeping and accounting for SIS and provides demand forecasting and inventory management facilities. However, regional supply centres have authority over stock levels and order quantities.

**9.130** Products to be stocked are selected by the product centres of Supply Operations. We found that there were no established criteria for their selection. The number of items carried has been substantially reduced in recent years, but because of the lack of overall criteria on items to be carried in inventory, it was not clear on what basis further reductions will be made.

**9.131** *DSS-Supply should establish criteria governing items to be stocked.*

**9.132** The SIS computer system calculates safety stock quantities, reorder levels and economic order quantities to guide inventory managers' everyday decisions.

**9.133** We found that certain costs in the system were outdated; other relevant costs were not represented in the inventory formulas and hence did not influence reorder quantities or frequencies. The mathematical formulas that forecast demand, and with this information determine safety stock levels and order quantities, were not satisfactory. DSS-Supply have agreed that the forecasting formulas should be changed.

**9.134** An internal audit study completed in 1979 recognized that the SIS computer system should be modified to provide better information to its users, who were dissatisfied and had, in some cases, developed manual systems for stock replenishment. We found that the changes that were subsequently made to the system did not address the root causes of its unsatisfactory performance. Unreliable information produced by the formulas in the present system had resulted in a general lack of acceptance of the system.

**9.135** *The demand forecasting and stock replenishment formulas of the present computer system for stocked item supply should be reviewed and revised. User concerns should be addressed in the revision.*

**9.136** The performance measurement system for staff involved in stocked item supply compares current performance with that of a prior period. We found that the system had two significant weaknesses. First, work measurement techniques were not used to help establish reasonable productivity levels. The practice of comparing current achievements with historical standards provides first-level managers with little indication of what could or should be achieved. Second, for purposes of performance measurement, outputs were aggregated without using weighting factors. For example, routine jobs in SIS such as order picking and packaging for distribution are performed for a wide range of products, from a case of pencils, picked by hand, to a major item of furniture handled on a pallet by a fork-lift truck. To aggregate these products for useful performance measurement, it is necessary to weight them to reflect the different work content or labour time required to complete a specific task.

**9.137** *Work measurement techniques should be used for those stocked item supply activities for which they are appropriate.*

**9.138** *Weighting factors should be used in measuring stocked item supply performance.*

### **Payroll Costs Management**

**9.139** For our 1979 Report on a government-wide study of payroll costs management, three areas were selected for audit in DSS-Supply:

- manpower planning: systems for ensuring that the appropriate number of people are available with the required skills, when and where they are needed;
- training and development: systems for identifying and meeting present and future skill, knowledge and attitudinal requirements to improve job performance and to cope with technological and other changes; and
- human resource information systems: systems for providing managers with basic personnel information; that is, profiles of employees and positions in an organization.

**9.140** In the Department of Supply and Services, responsibility for the personnel function rests with the Director General of Personnel, who provides personnel services to both the Supply Administration and the Services Administration. The Human Resources Division, which reports directly to him, is responsible for formulating policy in the areas of manpower planning, and training and development. In addition, this division provides technical expertise on request to both administrations.

**9.141** Within DSS-Supply, responsibility for manpower planning, training and development is shared by personnel functions in the operating divisions and in Corporate Management Services.

**9.142** **Manpower planning.** We examined the processes DSS-Supply uses to forecast its personnel requirements, and the activities it carries out to enable it to meet those requirements.

**9.143** We found that operational goals were often expressed in terms that made it difficult to determine how many, or what kind of staff were needed to achieve the goals. In developing work plans to meet each operational goal, DSS-Supply did not always specify the number, category and level of staff required to carry out the plans.

**9.144** DSS-Supply had not matched its future demand for staff with its existing resources in a number of categories. The process of reviewing all categories of personnel to ensure that the right number of staff with the required skills would be available to meet future demand had not been completed.

**9.145** *Operational goals should be expressed in terms that help management to identify related manpower requirements.*

**9.146** *DSS-Supply should project the future demand for staff in all categories and compare that demand with its available resources.*

**9.147** *Plans should be completed, reviewed and regularly updated to ensure that appropriate individuals are available for key positions.*

**9.148** **Training and development.** Although future staff needs and related training requirements had not been determined, DSS-Supply had identified its present training and development needs and had established procedures for evaluating and reporting the effectiveness of its training and development programs. Major in-house training programs have been developed to maintain a supply of specialized skills. The Intern Officer Program provides formal classroom training and rotating job assignments to develop product knowledge over a two-year period for newly-recruited science, engineering and commerce graduates. A Materiel Management Training Program also provides specialized training.

**9.149** **Human resource information systems.** DSS-Supply requires accurate, timely and complete information on its employees and their workload if it is to manage its staff well. The Personnel Information System in use at the time of our audit did not meet the needs of its users in fulfilling these requirements. As a

result, DSS-Supply acquired a new system in June 1980, which is expected to be fully operational by April 1981.

### **Reporting to Parliament**

**9.150** As noted in the Introduction to the comprehensive audit chapters, DSS-Supply and the Office of the Comptroller General have undertaken a pilot project to revise the form and content of the DSS-Supply Estimates. We have given the project team our recommendations on the information which we think should be included in the Estimates, and this Office is providing appropriate assistance to the project team.

**Summary of Recommendations and DSS-Supply's Comments**

*Recommendations*

*DSS-Supply's Comments*

**Effectiveness Evaluation**

**9.34** DSS-Supply should seek to have its role in planning and organizing the provision of materiel and services clarified.

Agree. Central Agencies are presently developing a policy on common services which should lead to some clarification of roles. DSS-Supply will be participating in the development of this policy and will seek the required clarification.

**9.39** DSS-Supply should evaluate how well it is satisfying the requirements of its customer departments.

Agree. This is being done to some extent at present and with the development of program evaluation measures, reaction to DSS-Supply services will be sought on a more regular and formal basis.

**9.45** DSS-Supply should:

- co-operate with other government departments in the identification of those national objectives where procurement can make a significant contribution, and should assess the impact that these objectives would have on DSS-Supply's ability to meet its other objectives;

Agree. DSS-Supply will maintain and strengthen, as required, its co-operation with other government departments in this area and will assess the impact on other objectives.

- develop and present its plans concerning national objectives, including cost and benefit implications, to the Treasury Board Secretariat for approval;

Agree. Consistent with Treasury Board Guidelines on Program Submissions, DSS-Supply will expose the cost and benefit implications on inter-program initiatives.

- develop guidelines governing the application of its policy on national objectives; and

Agree. Guidelines on interprogram activities are presently provided in the annual Supply Administration Operational Planning Guidelines and further refinements will be undertaken as required.

*Recommendations*

*DSS-Supply's Comments*

- arrange to have policy departments analyse, with its assistance, the impact of procurement activities on the attainment of national objectives.

Agree.

### **The Contracting Process**

**9.56** DSS-Supply should develop facility evaluation guidelines and ensure their consistent application.

Agree. Revisions are in progress. Included in these revisions are financial capability guidelines which are being expanded to provide a co-ordinated analysis for evaluating financial capability on specific large contract proposals. Estimated completion date is 28 February 1981.

**9.58** DSS-Supply should consolidate information on suppliers and develop procedures to ensure that information is updated on a regular basis and made available to all product centres and regional supply centres.

Agree. With the completion of facility evaluation guidelines and of other procedures, information on suppliers including financial data, will be readily available to all product and regional supply centres. Estimated completion date is 28 February 1981.

**9.65** DSS-Supply should request that central agencies establish a clearer definition of responsibilities for requirements definition for both DSS-Supply and customer departments.

Agree. Central agencies are presently developing a policy on common services which should lead to some clarification in roles. DSS-Supply will be participating in the development of this policy and will seek the required clarification.

**9.68** DSS-Supply should establish criteria for the preparation of guidelines by customer departments to assist them in providing life cycle cost information.

Agree.

**9.71** DSS-Supply should develop and implement policies and guidelines for the prompt and systematic evaluation of contractor performance.

Agree.

	<i>Recommendations</i>	<i>DSS-Supply's Comments</i>
	<b>Revenue Dependency</b>	
9.81	Revisions to the rate structure are required and should be made.	Agree. A major Rate Structure Study has been completed and the results will be incorporated in the 1981-82 Rate and Person-year Submission to the Treasury Board.
9.82	Once the revisions have been implemented, the rate structure should be reviewed regularly to ensure its continuing validity.	Agree. The adjustments made to the existing rate structure as a result of the Rate Structure Study require that all rates be monitored on a continuing basis to ensure the validity of the DSS-Supply rate structure in future years.
9.85	The underlying assumptions and forecasting techniques used in the preparation of business volume forecasts for Rate and Person-year Submissions to Treasury Board should be reviewed, and the forecasts should be subjected to a more rigorous quality control review.	Agree. This action as recommended will be implemented commencing with the 1981-82 Rate and Person-year Submission.
9.87	DSS-Supply should review the performance indicators currently contained in the Rate and Person-year Submissions and revise them where necessary to make them more useful.	Agree. The development of improved measures of performance is now in progress.
9.89	Formal procedures should be developed to ensure that customer departments are given an opportunity to participate in the rate review process.	Agree.
	<b>Planning</b>	
9.97	DSS-Supply should update and extend its corporate plan annually.	Agree.

	<i>Recommendations</i>	<i>DSS-Supply's Comments</i>
<b>9.99</b>	DSS-Supply should ensure that operational plans are clear statements of results to be achieved which contribute to DSS-Supply objectives, contain specific action plans, milestone dates and completion dates, and are reflected in responsibility centre budgets.	Agree. These refinements will be included in the annual Operational Planning Guidelines for the fiscal year 1981-82.
<b>9.101</b>	DSS-Supply should determine whether the operational plans in total have the potential of achieving the goals stated in the corporate plan.	Agree.

### **Financial Management and Control**

<b>9.109</b>	The Comptroller's Office should take a more active role in the review of budgets and in monitoring the budgetary control systems in the operating divisions. Budget guidelines should be expanded to cover forecasting documentation and review procedures.	Agree.
<b>9.111</b>	The Comptroller's Office should evaluate the existing methods of measuring financial performance to ensure that they are adequate.	Agree.

### **Internal Audit**

<b>9.116</b>	Internal audits should be controlled by time budgets.	Agree.
<b>9.117</b>	Major observations on operational audits should be followed up promptly by the Supply Audit Branch to ensure that implementation has been satisfactory.	This recommendation is under consideration. In the interim, the responsible ADM or the Comptroller, as applicable, arranges for a status report on the audit recommendations to be forwarded to the Supply Audit

*Recommendations*

*DSS-Supply's Comments*

**9.119** Internal audit activities within DSS-Supply should include a systematic review and assessment of all department-wide processes and issues.

Branch within 90 days of completion of the audit. This report provides information on the follow-up action taken or planned including: goals, milestones and target-dates for completion. In addition, the status report is followed by quarterly reports until all corrective action is completed.

Agree.

**Contract Audits**

**9.123** DSS-Supply should review the criteria used to select contracts for audit by the Audit Services Bureau to determine their appropriateness.

Agree. The majority of audits are mandatory. Evaluation of the extent of ASB audit coverage is being reviewed as the results of discretionary audits become known. Estimated completion date is 31 December 1981.

**9.124** DSS-Supply should use time budgets to monitor the audits performed by the Audit Services Bureau.

Agree.

**9.127** DSS-Supply should request clarification from central agencies on its responsibility for controlling amounts receivable by the Crown as a result of overpayments identified by contract audits.

Agree. Prior to a submission to Treasury Board, a review of customer departments' current procedures, other than the major customer affected (the Department of National Defence), is being made. Estimated completion date is 30 June 1981. DND has a procedure for controlling such overpayments.

**Stocked Item Supply**

**9.131** DSS-Supply should establish criteria governing items to be stocked.

Agree. This is in progress.

	<i>Recommendations</i>	<i>DSS-Supply's Comments</i>
9.135	The demand forecasting and stock replenishment formulas of the present computer system for stocked item supply should be reviewed and revised. User concerns should be addressed in the revision.	Agree. This is in progress.
9.137	Work measurement techniques should be used for those stocked item supply activities for which they are appropriate.	Agree. A performance measurement system has been developed for use by DSS-Supply warehouse management; however, a review will be carried out with a view to producing more meaningful information.
9.138	Weighting factors should be used in measuring stocked item supply performance.	Agree. Weighting factors will be considered when developing more meaningful supply performance measurements.
<b>Payroll Costs Management</b>		
9.145	Operational goals should be expressed in terms that help management to identify related manpower requirements.	Agree. This recommendation will be applied during the development of operational goals.
9.146	DSS-Supply should project the future demand for staff in all categories and compare that demand with its available resources.	Agree. The new Treasury Board "Personnel Management Planning" policy was implemented by DSS-Supply in September 1979. Significant personnel management issues were identified and action plans were developed to deal with them. Actual demand by category, occupational group and level for the following fiscal year was identified and compared with existing resources. A Personnel Management Plan will be prepared annually in response to Treasury Board Secretariat guidelines.

	<i>Recommendations</i>	<i>DSS-Supply's Comments</i>
<b>9.147</b>	Plans should be completed, reviewed and regularly updated to ensure that appropriate individuals are available for key positions.	Agree. An annual human resource planning process is now in effect which includes: succession planning for all SX positions; review of attrition data; and a review and identification of retirement information for the upcoming fiscal year. The departmental policy on Performance Review and Employee Appraisal permits the identification of individuals with high potential and the policy on Training and Development allows for the development of required skills.

**VETERANS AFFAIRS**



## VETERANS AFFAIRS

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## VETERANS AFFAIRS

### The Department and Associated Agencies

**10.1** This Chapter contains the major observations and recommendations arising from our comprehensive audit of Veterans Affairs, a portfolio consisting of the Department of Veterans Affairs and four associated agencies: War Veterans Allowance Board, Canadian Pension Commission, Pension Review Board and the Bureau of Pensions Advocates. Throughout this Chapter, references to Veterans Affairs include the Department and associated agencies. A summary organization chart is shown in Exhibit 10.1.

**10.2** Veterans Affairs is responsible for providing support for the economic, social, mental and physical well-being of veterans and their dependants and for providing service-related death and disability pensions. This requires the administration of more than 20 Acts with associated Regulations.

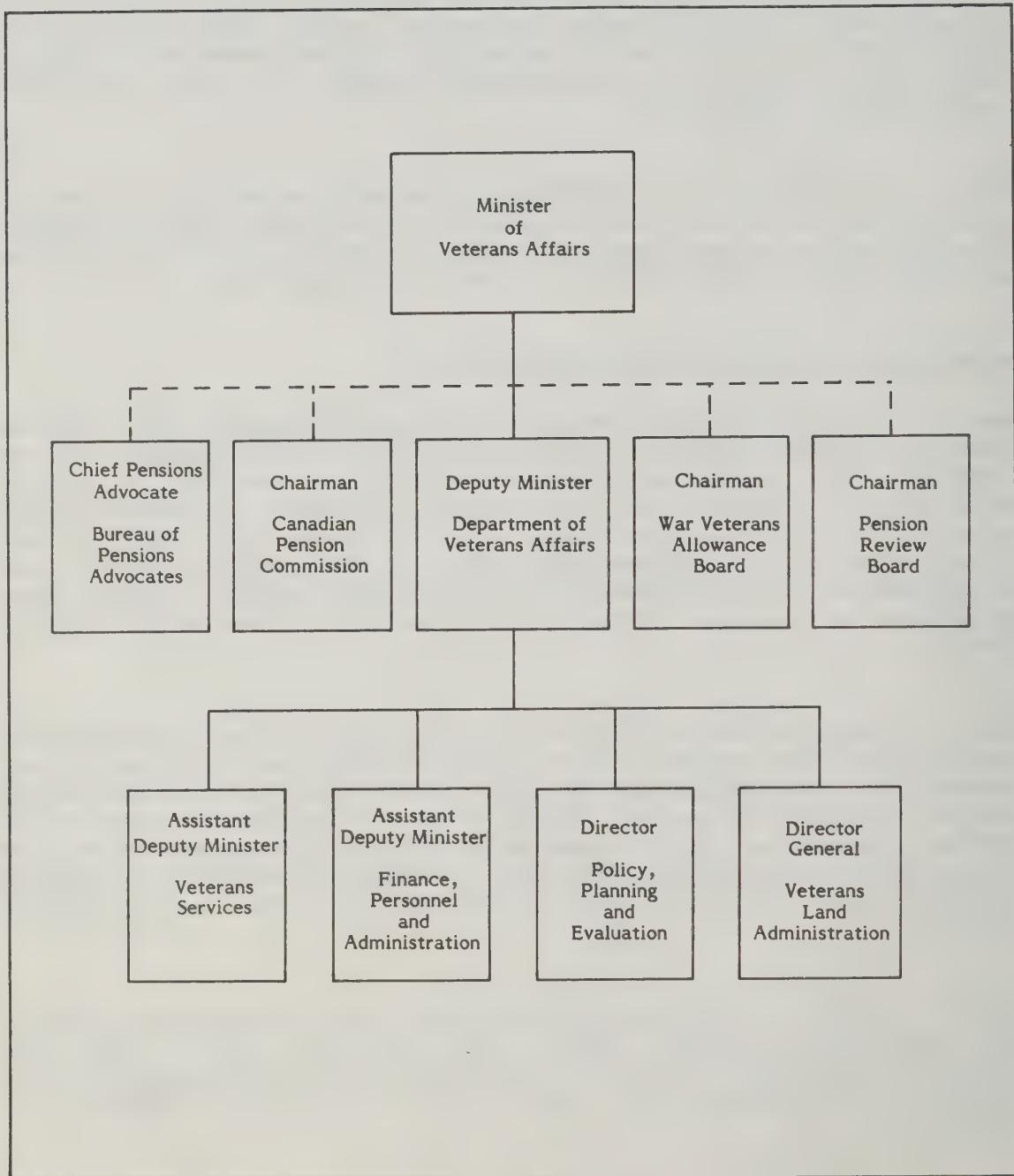
### Historical Development and Current Environment

**10.3** Before World War I, no government agency existed to look after the needs of Canadians who had fought on behalf of Canada. The Military Hospitals Commission was created during World War I to provide treatment for wounded soldiers, and vocational training programs were introduced to prepare disabled veterans for trades and professions. By the end of the war, veterans' rehabilitation programs had been combined in the Department of Soldiers Civil Re-establishment and, as the demand for such programs subsided, remaining care of veterans was included, in 1928, in the Department of Pensions and National Health.

**10.4** Near the end of World War II, it was recognized that a rehabilitation program was again required and, in 1944, the Department of Pensions and National Health was divided into the Department of National Health and Welfare and the Department of Veterans Affairs. A set of comprehensive programs, The Veterans Charter, was set up to provide for returning veterans various forms of compensation awarded by a grateful nation. Though most rehabilitation programs were completed shortly after World War II, the task of providing ongoing care remains.

**10.5** Provision for ongoing care has brought about fundamental changes to the operations of Veterans Affairs. As veterans have grown older, their specialized health care and financial needs have altered, causing services to be phased out or transferred and new services to be planned, developed and implemented.

**VETERANS AFFAIRS**  
**SUMMARY ORGANIZATION CHART - 31 MARCH 1980**



**10.6** In October 1976, the Minister of Veterans Affairs announced plans for the relocation of Headquarters to Charlottetown, Prince Edward Island. The original target date for relocation was 1981 but, for reasons beyond the control of Veterans Affairs, the move for the larger organizational units has been deferred to 1982 and 1983.

**10.7** Other changes having a major impact on Veterans Affairs include:

- transfer, mainly to provincial jurisdictions, of a number of departmental hospitals and homes;
- integration of the Treatment Services and Veterans Services Programs;
- regionalization of the Department's field operations;
- development of new computer systems; and
- legislative amendments relating to disability pensions and war veterans' allowances.

### **Programs and Resources**

**10.8** The program objectives, budgeted expenditures and authorized person-years, as set out in the 1979-80 Estimates of Veterans Affairs, are as follows:

1979-80 Estimates	
Expenditures (millions)	Authorized Person-years

#### Veterans Affairs Program -the Department of Veterans Affairs

"To provide support for the economic, social, mental and physical well-being of veterans and their dependants."

Departmental Administration	\$ 18	615
Veterans Services (including allowances of \$282 million)	301	899
Treatment Services	162	3,251
Veterans Land Administration	6	251
	<hr/>	<hr/>
	\$ 487	5,016

		1979-80 Estimates
	Expenditures (millions)	Authorized Person-years

War Veterans Allowance Board  
Program

"To ensure that veterans and their dependants receive their entitlement under the War Veterans Allowance Act and Part XI of Civilian War Pensions and Allowances Act."

Appeal, Adjudication and Review

1

34

Pensions Program

"To provide service-related death and disability pensions to ex-members of the armed forces or their dependants."

Canadian Pension Commission and the Pension Review Board (including pensions of \$458 million)

468

385

Bureau of Pensions Advocates  
Program

"To provide an independent professional legal aid service to persons seeking to establish claims under the Pension Act and allied statutes and orders."

Program Expenditures

3  
\$ 959

120  
5,555

**Audit Scope**

**10.9** Our comprehensive audit of Veterans Affairs concentrated on its two major programs: the Veterans Affairs Program (Department of Veterans Affairs) and the Pensions Program.

**10.10** Because of the changing environment, we placed particular emphasis on examining the planning processes and on the financial and other management control systems in place to report to senior management, central agencies and Parliament on the activities of Veterans Affairs.

**10.11** The following areas constituted our audit scope and are reported on individually in this Chapter:

- relocation of Headquarters;
- planning;
- program effectiveness;
- transfer of hospitals;
- operation of hospitals;
- administration of veterans allowance payments;
- management information systems;
- pensions compensation;
- computer systems development;
- property management;
- internal audit; and
- reporting to Parliament.

**10.12** Our examination included reviews of operations both at Headquarters in Ottawa and at a number of regional and district offices. We appreciate the co-operation that was extended to us throughout our audit by Veterans Affairs' personnel, especially during a period of extensive organizational change with the establishment of regional offices and the planning and partial relocation of Headquarters operations to Prince Edward Island.

#### **Summary of Audit Observations**

**10.13** As the veteran population has grown older, the demand for specialized health care has changed from acute to extended care. This has been reflected in the transfer of care from departmental hospitals to contract institutions. The aging of the veteran population has prompted policy initiatives on home care for veterans and a review of legislation respecting provisions for economic allowances.

**10.14** Veterans Affairs has been and continues to be affected by changes resulting from the Government's decision to relocate Headquarters to Prince Edward Island, the Department's decision to establish a regional organization for its field offices and the integration of two major programs -- Treatment Services and Veterans Services.

**10.15 Relocation of Headquarters.** We found that the Relocation Task Force set up by the Department had established an effective project planning system to address relocation tasks. Although the Department had the essential data, a comparison of planned and actual achievements in terms of progress, manpower used and costs incurred was not being provided by the reporting system.

**10.16 Planning.** During the past few years, the Department and associated agencies have improved their capacity to engage co-operatively in short-term operational planning. We were advised that, because of the separate legislative mandates, co-ordinated strategic planning for the Department and associated agencies was not carried out.

**10.17** We found that planning in the Department suffered because of inadequate resources. There was also insufficient involvement by senior financial officials to provide financial evaluations of policy initiatives.

**10.18 Program effectiveness.** The program evaluation group, operating since 1976, has been developing its capability to undertake program effectiveness evaluations. Studies to the date of our audit were, however, mainly economy and efficiency oriented. The Department had not clarified broader program objectives in measurable terms as a pre-requisite to successful program effectiveness evaluation.

**10.19 Hospital transfers.** As a result of a 1963 Cabinet directive to transfer departmental health care institutions to provincial and other jurisdictions, 10 of 14 institutions have been transferred over the past 17 years. The Department has had difficulty in arriving at an equitable sharing of health costs between federal and some provincial authorities.

**10.20** The Department has stated that the purpose of transfer negotiations is to ensure quality hospital care for veterans in the years to come. Although transfer agreements prescribed federal capital contributions as one means of ensuring this level of care, we noted a lack of specific reference in the agreements to needed improvements. In discussions with the Department, it became evident that it was not the Department's intention to be as specific as would be expected for a capital contribution and, in fact, it appeared to identify more closely with capital grants.

**10.21 Operation of hospitals.** Our review of the operations of Deer Lodge Hospital, Winnipeg, suggested that there were potential savings in non-medical operating costs, generally comparable to what could be found in reviews of similar-sized provincial and community institutions. We noted that, in the major operating areas of nursing and housekeeping services, efficiency could be substantially increased. In addition, substantial savings in the dietary services area could be achieved with certain capital improvements.

**10.22 Administration of veterans allowance payments.** We found that the Department was exercising adequate control over establishing the eligibility of recipients; however, there was insufficient direction from Headquarters in enforcing procedures to verify income declared by recipients.

**10.23 Management information systems.** Departmental management is highly committed to a management by objectives process and, as well, is developing a new performance measurement system. We found, however, that management had given priority to the development of a computer system for the longer term and had not provided direction and assistance to regions in developing systems to meet their current needs.

**10.24 Pensions compensation.** We found that pension payments were well controlled but that the Canadian Pension Commission had not formalized standards for work processes within their control. Such standards would include the time taken to process an application and the cumulative time from receipt of an application to a final decision.

**10.25 Computer systems development.** Veterans Affairs was in the process of developing and implementing new benefit delivery systems at a total cost projected in excess of \$9 million. We found inadequate documentation on presentations and on decisions taken by management during the development of these major projects.

**10.26 Property management.** Since 31 March 1977, no further loans have been permitted under the Veterans' Land Act. Thus, the major work of the Veterans Land Administration has been in collecting outstanding loans and carrying out requisite property administration. We found that an orderly phase-down of operations was in progress and that studies were being carried out to determine the possibility of converting agreements of sale to mortgages, which would accelerate the phase-down as well as achieve a savings in departmental administrative costs.

**10.27 Internal audit.** Internal audit was one of the earlier organizational units being relocated to Prince Edward Island. As a result, we found a more pronounced turnover of staff and related problems. Although planning and organization had improved since our 1978 government-wide review of the internal audit function, only limited improvement was noted in audit practices.

**10.28 Reporting to Parliament.** Veterans Affairs was meeting the requirements of Treasury Board in relation to the presentation of information in the Estimates and Public Accounts. Reporting to Parliament is being reviewed across government by the Office of the Comptroller General. In the case of Veterans Affairs, we believe the presentation could be improved by including performance and organizational information and by more extensive statements describing expenditures and transfer payments.

## Observations and Recommendations

### Relocation of Headquarters

**10.29** In October 1976, the Minister of Veterans Affairs announced that, in keeping with the Government's policy of decentralization, the Headquarters of Veterans Affairs would be moved by 1981 to Charlottetown, Prince Edward Island. This announcement marked the first decision involving the relocation of a federal department head office outside the National Capital Region. Circumstances beyond the control of Veterans Affairs have moved the final completion date of the relocation to 1983.

**10.30** In early 1977, Veterans Affairs established a Relocation Task Force to plan the physical move and to co-ordinate all other aspects of relocation, including documenting procedures, public relations, official languages and personnel administration. The total relocation cost was projected at \$40 million, including capital construction costs of \$16 million.

**10.31** At the time of our audit, Headquarters had a complement of approximately 900 person-years. Given projected decreases in numbers of clients and with computer systems development under way, officials anticipate that the person-year complement would be reduced to 713 by the time relocation is completed.

**10.32** It has been necessary to hire and train new employees and, for a transitional period, some operations must be duplicated. The projected one-time additional requirement for personnel over the relocation period was estimated at 702 person-years.

**10.33** Officials and staff of Veterans Affairs have worked effectively to implement the decision to relocate, in spite of the fact that less than 20 per cent of Headquarters personnel, on strength at the time of the relocation announcement, was planning to move to Prince Edward Island.

**10.34** Notwithstanding intentions to relocate with a minimum of disruption, the decision has had a significant impact on the operational needs of Veterans Affairs, particularly in the areas of manpower planning, bilingualism, staff turnover and training needs. The Relocation Task Force, with assistance from others, has established an effective project planning system to address these problems and provide for an orderly relocation. Those not wishing to relocate have been given priority status by the Public Service Commission in their search for other employment in the National Capital Region.

**10.35** The relocation project spans a number of fiscal years and has numerous milestones against which progress could be compared. Although the

task force reporting system reported by sub-project, it was not comparing overall progress achieved to related plans. Information on relocation is of importance to Veterans Affairs in terms of measuring the impact of the change and could be useful to other government organizations planning decentralization of activities.

**10.36** *The Relocation Task Force reporting system should be designed to provide comparisons of planned and actual achievements in terms of progress, manpower used and costs incurred.*

## Planning

**10.37** Planning in the Department is principally conducted at the program level, an arrangement decided upon in 1974. A Portfolio Planning Committee, consisting of the heads of all the major entities making up Veterans Affairs, also exists for the exchange of ideas on major issues. We were advised that, as a result of the separate legislative mandates, co-ordinated strategic planning was not carried out.

**10.38 Planning capability.** We concentrated on the organization of the planning function in the Department to assess its planning capability. To do so, we examined the two areas where the Department addressed strategic planning issues -- the development of a proposed policy initiative pertaining to the health care of aging veterans and a Legislative Review of the War Veterans Allowance Act. Given the changing characteristics of the veteran client population, there is an important need for periodically re-assessing basic future directions and developing alternatives regarding both ends and means.

**10.39** During the past few years, the Department improved its capacity for undertaking short-term operational planning, including involvement with the associated agencies. However, there was still a lack of staff resources for strategic planning that affected departmental efforts to address basic issues in the Department's policy initiatives.

**10.40** The lack of sufficient resources for strategic planning contributed to several problems. These included:

- limited information for planning;
- time delays in conducting planning initiatives;
- lack of continuity between the stages of conceptualizing and implementing policies; and
- heavy reliance on operational staff who were under continual pressures to deliver services.

**10.41** The Department's Policy, Planning and Evaluation Branch was being reorganized at the time of our audit. Provision was being made for additional planners to be assigned to each of the Deputy Minister, the Assistant Deputy Minister, Finance, Personnel and Administration, and to the Assistant Deputy Minister of Veterans Services. The appointment of these planners constitutes an important step in improving the Department's planning capability. The Department indicated that the additional planners were to receive functional direction from the Policy, Planning and Evaluation Branch.

**10.42** *The Department should ensure that the organization and terms of reference for the planning function will provide adequate planning capability for the Department.*

**10.43** **Development of a health care policy.** Over the past three years, the Department has been involved in a planning process to develop a health care policy, recognizing that, by 1985, 50 per cent of the veteran population will be over 65 years of age and will have an increasing need for health care services. The thrust of the proposed policy is to identify health care needs of veterans and the need for funding home-support services such as visiting homemakers and meals-on-wheels.

**10.44** The current Veterans Treatment Regulations concentrate mainly on institutional care, doctor-of-choice, and out-patient services. The planning initiative focused on the development of a revised or new policy to allow for financing home-support services to keep individuals in their own homes rather than in institutions.

**10.45** To arrange appropriate services, a pilot project was developed to train staff and examine the use of multi-disciplinary teams in assessing the health care needs of individual veterans. These teams have been a major component of the health care initiative. In each district, the needs of at least 10 veterans were to be examined and assessed during the trial period.

**10.46** The purposes of the pilot project involving the multi-disciplinary teams were not clearly formulated. We found that insufficient emphasis was placed on the benefits that could be obtained from a planning point of view. This had significant implications on project implementation and the amount and type of information collected from this initial experience.

**10.47** There were no criteria for deciding which veteran clients to select for the initial trial period assessment. This lack of criteria resulted in assessments of clients who were considered low risk in terms of needing health care support. In addition, identification of problems and opportunities for future policy implementation were limited.

**10.48** There was no project implementation strategy to determine how the Department would work with provinces that had existing home-support programs in contrast to provinces without these programs. In provinces with home-support programs, provincial officials were concerned about duplication in the assessment of health needs, and doctors expressed opposition to providing similar information to the Department as well as to provinces.

**10.49** No formal evaluation procedure existed to serve as a basis for modifying the health care initiative. Regions were expected to conduct their own evaluations, including a review of a proposed assessment form. However, the regions interpreted the project as a clinical review of the assessments of needs carried out rather than as a process to evaluate the total project.

**10.50** One large regional office considered the use of multi-disciplinary teams to be operational. It revised the client assessment form and used the approach extensively, assessing 10 to 15 veterans each week instead of implementing the project as a test of 10 veterans per district office.

**10.51** When pilot projects are undertaken, clear objectives should be stated and communicated, including the information to be collected and how it is to be evaluated and used.

**10.52 Information.** To develop proposals for substantial amendment, a fundamental review of the War Veterans Allowance (WVA) legislation was authorized by the Deputy Minister of the Department and the Chairman of the War Veterans Allowance Board. Their review criteria required the maintenance of a distinct and readily identifiable federal support program for eligible veterans and their dependents.

**10.53** Veterans Affairs had little data, appropriate for this type of study, on the current characteristics of the needs of the veteran client population. The departmental team conducting the review recognized that it could not make valid projections using the 1971 Census information on veterans since there was a difference between the definition of veterans made by the Census and that made by the WVA program. The Legislative Review Team also encountered difficulty in obtaining access to detailed data on other income support programs concerning the benefits received by veteran clients in relation to their needs.

**10.54** The Department's work in formulating the health care policy included a review of literature and research on geriatrics, consultation with experts in geriatrics, and discussions with provincial officials about their experience with home-support programs. Although this work was useful, there was still a lack of basic, essential information pertaining to the veteran client population. This hampered the formulation and costing of the policy, and the Department relied on assumptions which it considered to be tenuous. Much of the missing information

could have been collected with sampling techniques. Types of information feasible to collect were:

- the distribution of beds in departmental institutions and, by contract in other institutions, in relation to the distribution of the veteran client population;
- the extent to which acute and chronic beds were being inappropriately used if veteran clients could have been living in the community had home-support services been available; and
- the health care needs of clients to determine the scope and nature of services needed, both institutional and home care.

**10.55** The Department was aware of the need for better information on veteran clientele and initiated efforts to ascertain the potential benefits and costs of conducting surveys. Steps were also being taken to determine the need for extending the scope of an automated client data base information system which was being developed to help in providing the required data.

**10.56 Financial involvement.** Planning requires that policy or program options be costed so that choices can be made in light of this information. There was inadequate involvement by senior financial officials in the financial evaluation of both the health care policy initiatives and the legislative review. Thus, in our opinion, there was inadequate assurance that cost estimates attached to proposals were appropriate.

**10.57** *The senior financial function should be involved in the financial evaluation of policy or program initiatives to ensure that costing is appropriate.*

### **Program Effectiveness**

**10.58** Since 1976, the Department of Veterans Affairs has had a program evaluation group to carry out evaluation responsibilities for the Department and the associated agencies. In accordance with a circular on program evaluation issued by Treasury Board in 1977, program evaluation has been viewed by the Department as encompassing studies concerned with economy, efficiency and effectiveness.

**10.59** The program evaluation group conducted studies of Ste. Anne's Hospital in Sainte Anne de Bellevue, Quebec and in the pension compensation areas -- Canadian Pension Commission, Bureau of Pensions Advocates, and Pension Review Board. Program effectiveness issues were considered and dealt with, given the expertise available at the time. These studies were largely oriented toward operational issues. In addition to the policy reviews of War Veterans Allowance legislation and health care for the aging veteran, other

studies carried out by the program staff dealt with effectiveness issues to the extent of expertise available.

**10.60 Program objectives.** Clarification of program objectives is necessary to facilitate the development or selection of appropriate measures for determining whether progress has been achieved. The objective for the Veterans Affairs Program, as stated in the Estimates, is "to provide support for the economic, social, mental and physical well-being of veterans and their dependents." The various activities provided to veterans are directed at achieving this broad objective. Normally, there are more specific objectives for individual activities; however, these have not been further delineated in the case of payments of war veterans allowances.

**10.61** The absence of this further delineation means that there is no basis for determining to what degree the payment of the allowance is meeting the needs of the veteran.

**10.62** *To establish proper accountability in relation to meeting client needs, the Department should clarify and seek parliamentary approval for the objectives of the war veterans allowances activity.*

**10.63** The Department recently took steps to develop methods for conducting evaluations of health care. In the 1980-81 planning memorandum, the Deputy Minister indicated an interest in assessing quality of care in institutions to see if they meet acceptable standards. The Department is aware of approaches for measuring quality of care and, during our audit, one region began this kind of assessment. Terms of reference were also being formulated by the Department for a composite audit/evaluation of health care. The various departmental initiatives are dependent upon the clarification of the meaning of acceptable standards of care. Without such clarification, there is little assurance that the developed or selected measures will be appropriate.

**10.64** *The Department should clarify the objective of health care and identify appropriate measures for reflecting attainment of this objective.*

**10.65 Conducting program effectiveness evaluations.** Program effectiveness evaluations are designed to measure the extent to which programs attain their objectives and produce other intended or unintended effects. The Department's evaluations had focused primarily on operations rather than measuring the impact of programs on clients. When the effectiveness of a particular program was questioned in carrying out the studies, rationale and arguments in favour of the program tended to be provided without objectively measuring the propositions. Insofar as these studies were primarily oriented toward operational issues dealing mainly with economy and efficiency, we considered them properly conducted.

**10.66** Steps have been taken to establish the capability to undertake program effectiveness evaluations within Veterans Affairs. This function has been established as part of the Directorate of Policy, Planning and Evaluation, reporting to the Deputy Minister. Resources have been identified and staffing of positions is under way. A training plan is in place to increase the knowledge of new staff and to develop the skills essential to performing this activity. A major program component has been identified for evaluation and planning has commenced.

**10.67** *Veterans Affairs should clearly differentiate studies of program effectiveness from other types of evaluations and accelerate progress in conducting program effectiveness evaluations.*

### Transfer of Hospitals

**10.68** In the early 1960s, the Royal Commission on Government Organization (Glassco Commission) recommended the transfer of veterans hospitals to the community. The Commission believed that adequate standards of care could not be maintained in a system of hospitals isolated from the main stream of the community health system. Hence, the best possible level of care would be assured by integrating Veterans Affairs hospitals with the community network of hospitals. Pursuant to a 1963 Cabinet directive, the Department has been transferring its health care institutions to other organizations or governments. At the time of our audit, 10 out of 14 institutions, operating at the time of the 1963 directive, had been transferred. The following table summarizes completed transfers.

Name of Hospital	Location	Transferred to	Date of Transfer
Sunnybrook	Toronto, Ontario	University of Toronto	October 1966
Ste. Foy	Ste. Foy, Quebec	Province of Quebec	September 1968
Lancaster	Saint John, New Brunswick	Province of New Brunswick	November 1972
Shaughnessy	Vancouver, British Columbia	Province of British Columbia	July 1974
Veterans Hospital	Victoria, British Columbia	Province of British Columbia	August 1974
Westminster	London, Ontario	Province of Ontario	October 1977
Queen Mary Veterans	Montreal, Quebec	Province of Quebec	February 1978
Camp Hill	Halifax, Nova Scotia	Province of Nova Scotia	May 1978
Edmonton Veterans Home	Edmonton, Alberta	Province of Alberta	December 1979
Colonel Belcher	Calgary, Alberta	Province of Alberta	April 1980

**10.69** We concentrated our review on the organization and preparation for the transfer of hospitals as well as on the terms of existing transfer agreements and the appropriateness of these terms as a means of monitoring the hospitals transferred.

**10.70** The Department pointed out during our audit that the purpose of transfer negotiations is to provide for quality hospital care for veterans in the years to come by negotiating an agreement that is fair and reasonable to all parties -- the veterans, the federal and provincial governments, and the employees working in the hospitals at the time of transfer. The Department also emphasized that it goes to considerable lengths to recognize fields of provincial jurisdiction and competence and studiously avoids any attempt to dictate to provinces how they should perform functions that are clearly within provincial jurisdiction.

**10.71** **Recoveries under provincial health care plans.** Veterans are entitled to coverage under provincial health care plans just as all other residents of a province are, except that the costs of care for service-incurred disabilities are borne by Veterans Affairs. In the case of one hospital still operated by the Department, a provincial hospital service commission had accepted, as early as 1971, the principle that chronic care patients hospitalized in that facility were covered by the provincial plan. Later that year, the provincial government reversed this position and refused to pay the Department for such services. Consequently, the Department has been funding the full cost of this care -- a total cost of more than \$25 million in the past 10 years. Currently, the cost to the Department is in excess of \$4 million annually.

**10.72** Other examples include a province where the Department paid outpatient fees for veterans whereas these services were provided to other residents without charge. In another case, an interpretation of the transfer agreement resulted in the Department paying costs for priority access to beds even though beds were not required by veterans and were being used by the general public.

**10.73** *The Department should continue to seek methods to arrive at an equitable sharing of health care costs between federal and provincial authorities.*

**10.74** **Capital contributions.** Transfer agreements usually contain provision for capital contributions of substantial sums to be spent on capital improvements to existing facilities or, in other cases, on the construction of new facilities. The Department indicated that these contributions were generally intended to be equivalent to the amounts the Department would have or should have spent on capital improvements to upgrade facilities to community standards for the purpose of providing quality hospital care for veterans.

**10.75** Federal capital contributions are described in the Estimates as conditional transfer payments, subject to audit and requiring an arrangement between the recipient and the donor department that identifies the terms and conditions governing the payment. Federal capital grants, on the other hand, are not conditional on identifying terms and conditions between the recipient and the donor department that will be subject to audit. The use of the capital contribution mechanism to obtain funds from Parliament places a responsibility on the Department to ensure that funds are later expended as intended.

**10.76** We noted a lack of specific reference in the transfer agreements to needed improvements and a lack of an appropriate timeframe which could make it difficult for the Department to attain the level of accountability normally expected for federal capital contributions. In discussions with the Department, it became evident that it was not the Department's intention to be as specific as would be expected for a capital contribution and, in fact, it appeared to identify payments more closely with capital grants.

**10.77** *The Department should clarify whether arrangements for capital payments provided under hospital transfer agreements should be in the form of contributions or grants.*

**10.78** **Preparations for transfer.** The transfer of hospitals involves federal-provincial relations and is centralized within the Department. The Department stated that it commits a high degree of senior management involvement and contacts provinces on a regular basis to achieve transfer. The Department indicated, however, that before the process can begin, it must rely on a province responding that it is interested in negotiating a transfer.

**10.79** We found that proper precautions were not taken to ensure that financial records were accurate at the transfer date and that all amounts due to the Department were properly accounted for when the new authority took over administration of the facilities. Although the Department designated individuals to be responsible for effecting the changeover, the Department did not accord a high enough priority to an accurate financial cut-off and transfer of responsibility.

**10.80** Verification procedures in respect of the last three hospitals transferred were not carried out at the date of transfer. There were delays of a year or more in performing an audit of the cut-off. In one instance, the auditors were unable, because of the lack of an adequate audit trail, to determine if all requisite adjustments had been made.

**10.81** *The Department should ensure that, once a hospital transfer agreement has been negotiated, proper cut-off procedures are followed. In addition, financial audits should be arranged to take place at the date of transfer.*

## Operation of Hospitals

**10.82** The Department continues to operate the following institutions:

- Deer Lodge Hospital, Winnipeg, Manitoba
- Ste. Anne's Hospital, Sainte Anne de Bellevue, Quebec
- Rideau Veterans Home, Ottawa, Ontario
- Saskatoon Veterans Home, Saskatoon, Saskatchewan

**10.83** We reviewed the operations of Deer Lodge Hospital, Winnipeg, both in terms of the hospital's current state of efficiency and the availability of information on its operations that could provide assistance to the negotiating team for the transfer of the hospital. The hospital has a rated bed capacity in excess of 500 beds, with slightly in excess of 350 beds normally set up. The 1979-80 budget is about \$14 million, with \$7.7 million allocated to salaries and wages in the non-medical operating area, our principal area of concentration.

**10.84** Our review of Deer Lodge Hospital disclosed that potential savings to the non-medical operating budget were generally comparable to what could be found in reviews of similar sized provincial and community institutions.

**10.85** The total potential annual savings, within the operating control of the hospital and calculated with the assistance of hospital officials, was in the range of \$530,000 to \$840,000, with additional approximate savings of \$380,000 possible by an injection of capital funds that would provide a payback in less than five years. Other potential savings in the range of \$90,000 to \$180,000 could be achieved if federal pay rates for Licensed Practical Nurses were more competitive with local provincial rates.

**10.86** Our examination covered 11 major non-medical operating areas of the institution and two support services. A detailed report of our review was supplied to departmental officials. Observations and recommendations in the areas of nursing, housekeeping and dietary services are described here to illustrate the nature of our findings.

**10.87** **Nursing.** The 1979-80 Nursing Services budget at Deer Lodge Hospital was \$3.8 million. Our analysis of time schedules for both an extended care ward and a medical ward showed staffing to be reasonably constant; however, staffing was based mainly on nursing time available rather than on defined patient need. Further analysis indicated that the hospital was not making substantial use of a patient classification system to identify how much daily nursing care was required by individual patients. The patient classification system was being used only once monthly. Experience in other institutions where patient classification systems are

used on a daily basis indicates possible reductions in staffing levels of from two to five per cent. In financial terms, this could represent potential annual savings of between \$76,000 and \$190,000.

**10.88** We also noted that there was a high ratio of Registered Nurses (RN) to Licensed Practical Nurses (LPN) employed at the hospital. Calculations arrived at with the assistance of the Executive Director and the Director of Nursing revealed that, in terms of pure work content, 10 to 20 per cent of the present RN complement could be replaced by LPNs if those resources were available. This would represent further potential annual savings in the range of \$90,000 to \$180,000, based on the total nursing budget. We noted, however, that federal pay levels for LPNs in the Winnipeg area were lower than rates being paid in community hospitals, and the hospital was having trouble attracting and holding competent LPNs. This difference in rates could be a temporary situation, but it will not be possible to achieve potential additional savings until LPN pay rates are comparable to provincial rates.

**10.89** *The Department should ensure that the patient classification system now being used once monthly at Deer Lodge Hospital is upgraded to reflect all elements of care and are used as an objective management aid in setting staffing levels on a day-to-day basis.*

**10.90 Housekeeping services** The housekeeping department is responsible for cleaning approximately 300,000 square feet of net cleanable floor space. The quality of cleaning is high. A review of cleaning frequency showed it to be higher than that in other provincial hospitals in areas such as offices, non-ward corridors and X-ray areas, which were cleaned thoroughly on a daily basis compared to weekly or twice-weekly in many other institutions. We noted, however, that there were problems of distribution of duties within the labour force that proved to be counter-productive and that time standards were not available for cleaning activities.

**10.91** As a result, the hospital was achieving a productivity of only 4,500 square feet per person as compared to an acceptable standard used in other institutions of between 7,000 and 10,000 square feet per person. We estimate that productivity improvement in the cleaning function comparable to that achieved in other institutions could produce potential annual savings of between \$300,000 and \$430,000, based on the total 1979-80 housekeeping budget of \$699,000 at Deer Lodge Hospital.

**10.92** *The Department should adopt standard times and frequencies for each cleaning activity at Deer Lodge Hospital and base staffing levels on these standards.*

**10.93** The Department should take steps to establish a distribution of duties within the Deer Lodge Hospital housekeeping services labour force that will help it to achieve maximum productivity.

**10.94 Dietary services.** Because of the physical constraints of the hospital building, a decentralized food operation has been necessary and, as a result, the dietary service was found to be inefficient in comparison with other hospitals and service industries.

**10.95** We calculated that potential annual savings of approximately \$380,000 in salary and operating costs could be realized, subject to investment of capital funds. We did not have a detailed engineering study carried out, but a preliminary review indicated a savings payback period of less than five years would cover the capital investment. Management was aware of the inefficiencies in this area but capital funds had not been made available to rectify the situation. The Department expressed its intention to study the matter during the 1980-81 fiscal year.

**10.96** The Department should examine the costs and benefits of upgrading the kitchen and food distribution facilities at Deer Lodge Hospital.

#### **Administration of Veterans Allowance Payments**

**10.97** Veterans allowances provide financial assistance to qualified veterans, certain groups of civilians and dependants of recipients who are unable to provide for their own maintenance.

**10.98** Until recently, the Department administered this program through 18 district offices which reported directly to Headquarters. Following a change in organization, the Department now has 31 district offices reporting to 5 newly created regional offices. These, in turn, report to Headquarters. The Department believes the new organizational arrangements will result in increased client contact through the opening of new district offices and a reduced span of control for Headquarters.

**10.99** Benefit entitlement is based on a declaration by recipients of the income they expect to receive during the following twelve months. Each recipient is required to notify the Department of income fluctuations resulting from such things as seasonal employment, entitlement to other government benefits and changes in interest-bearing assets. This can result in a number of changes to the benefit level of individual recipients in any one year. Delays in processing these changes can lead to over/underpayments of allowances.

**10.100** In the year ended 31 March 1980, there were approximately 94,000 recipients of veterans allowances. The total amount paid in benefits for the year amounted to \$255 million.

**10.101** We reviewed the systems used to ensure eligibility of recipients, verify income of recipients, and prevent or minimize over/underpayments. Our audit took place during the regionalization process when the Department was involved in having to hire and train staff and develop new procedures.

**10.102 Eligibility of recipients.** Based on the sample of recipient payments examined, proper eligibility criteria had been established and adequate supporting documentation for payments was obtained.

**10.103 Income verification.** Under the principle of self-declaration, recipients are supplied, on a regular basis, with a form to be completed and returned to the Department, indicating details of income expected to be received. Income verification procedures by the Department are based on a random sample of the self-declaration forms. We observed that this random verification procedure was not being carried out consistently. In addition, there was no attempt to evaluate the verification results on a regional or country-wide basis to determine the extent to which the self-declaration system was operating properly.

**10.104** *The Department should ensure that procedures for verification of income are adhered to. This should include the production of information for Headquarters, based on the results of random tests, to evaluate the extent to which the income verification system is working.*

**10.105 Over/underpayments.** Departmental records indicated that, during the period 31 March 1974 to 31 March 1980, overpayments outstanding had risen from \$2.9 million to \$11.3 million. To minimize the dollar amount of over/underpayments, it is important that prompt administrative action be taken when changes occur in recipients' incomes. Over/underpayments can also be minimized by procedures that anticipate the date of likely changes in income, enabling preparation of timely and appropriate adjustments to the benefit level. We observed that prompt action was not consistently taken when the Department was notified of income changes and that uniform procedures did not exist to anticipate likely income changes.

**10.106** *To minimize the dollar amount of over/underpayments, the Department should establish uniform procedures to ensure prompt administrative action when notified of changes in recipients' incomes.*

**10.107** *The Department should establish uniform procedures to anticipate, to the maximum extent practicable, significant income changes of recipients so that necessary steps can be taken to minimize delay in adjustments.*

## Management Information Systems

**10.108** To administer the Veterans Services activity, management information systems are required by Headquarters, regions and districts. The principal departmental system for performance evaluation is a management by objectives system to which regional and district staff appeared fully committed. The Department also uses a limited version of a performance measurement system which had been developed before regionalization and the integration of major programs. Changes in staff functions and responsibilities had limited the usefulness of this system, and the Department was developing a new one. Other management information systems have been developed by regions and districts to meet their specific needs.

**10.109** Our audit revealed that, before regionalization, there had been no formal studies to rationalize management information needs at the various departmental levels in relation to changes in organization and systems for delivering benefits. The Department indicated that its available resources were fully utilized in the development of a computer system to meet long-term needs. As a result, the regions were left to their own initiative to develop their management information systems.

**10.110** We observed that management reports produced by districts and regions reflected a mixture of both old and newly developed systems. Some reports were produced to meet only the needs of a particular region or district, while others followed historical reporting patterns and were forwarded to Headquarters. However, in one region visited, an inventory of management reports was being compiled to streamline existing reports, eliminate those that were superfluous and identify new requirements.

**10.111** *Prior to implementation of a computer system to serve the longer term, the Department should formally reconsider the degree of direction and assistance it can provide the regions in developing management information systems.*

**10.112** Including regional office support services, there were approximately 270 person-years allocated to providing counselling services to the veteran population across Canada. As a result of the integration of major programs, counsellor workload distribution changed considerably. We observed that an appropriate system for recording and monitoring the time spent by counsellors in performing their various activities did not exist. Such a system would be useful in assessing the changing role of counsellors, and the information could be used in establishing guidelines for regional personnel in allocating counsellor resources. The Department had recognized the need for such information, and a project to develop a performance measurement system that would include standard times and procedures for counsellor activities was under way at the time of our audit.

## Pensions Compensation

**10.113** The Canadian Pension Commission is a quasi-judicial, independent agency within Veterans Affairs. The Commission's main objective is to provide service-related death and disability pensions to ex-members of the armed forces or their dependants. In the fiscal year 1979-80, there were approximately 107,000 disability pensioners and 25,000 dependants receiving pensions totalling approximately \$465 million.

**10.114** In addition to the Commission, two other independent agencies participate in the adjudication process. The Bureau of Pensions Advocates provides a legal aid service to veteran clients at all levels of the adjudication process. The Pension Review Board hears and renders judgements on appeals of those veterans who are dissatisfied with the decisions rendered by the Canadian Pension Commission. This Board also determines all matters of interpretation of the Pension Act.

**10.115** We selected a sample of recipients and examined their related files and supporting documentation. We concluded that:

- recipients met eligibility requirements;
- supporting documents were available;
- adjudication payments were made in the correct amounts; and
- payments were charged to proper appropriations.

**10.116 Adjudication of pension applications.** There are three levels of adjudication for pension entitlement or assessment under the Pension Act: the first is at the Commission level; the second is a request to an Entitlement Board, also staffed by Commissioners; and the third is an appeal to the Pension Review Board. The following table, based on Commission estimates and data contained in Commission reports for May 1980, shows the average time to reach a decision at each level and the cumulative times.

	Average Time to Reach Decision (months)	Cumulative Time (months)
Commission	11	11
Entitlement Board	19	30
Pension Review Board	16	46

**10.117** For a variety of reasons, a number of which are outside the control of the Commission, processing times may vary from the average time indicated. Our audit revealed that the time taken to adjudicate an application was a key element in the pension process. The Commission had not, for areas of the adjudication process within its control, formalized standards either for the time taken to process an application or the cumulative time from receipt of application to a final decision. These standards could form a basis for measuring actual performance.

**10.118** As a basis for measuring actual performance, the Canadian Pension Commission should formalize processing time standards, to the maximum extent practicable, in all areas of the pension adjudication process within its control.

### Computer Systems Development

**10.119** When the computerized benefit delivery systems for veterans allowances and pensions are fully developed, they will be closely interlinked to a computerized data base to provide Headquarters and field offices with current information about veterans receiving benefits. The systems will also be used to calculate the benefit payments.

**10.120** At the time of our audit, project teams led by staff in the Directorate of Management Advisory Services (DMAS) were developing the systems. To accommodate changes such as relocation and regionalization, some of these systems were being developed within a shorter than normal time frame.

**10.121** We reviewed the management of the systems development process, the extent of user involvement, the feasibility study and related cost-benefit analyses.

**10.122** **Management reporting.** The development of the computerized benefit delivery systems and related data base was preceded by a feasibility study conducted by DMAS. This study was shown to senior management in early 1978 in the form of a presentation outlining the approach, major findings and recommendations. The feasibility study was not accompanied by a formal written report containing detailed information for subsequent review and reference. In particular, cost figures in the amount of \$1,320,000 were not sufficiently detailed and did not provide for non-EDP related costs.

**10.123** As a result of subsequent changes in the Department, further feasibility studies and regular cost-benefit review reports included non-EDP related costs and reflected significant expansions in the scope of the project and additions to the stated benefits. By February 1980, these reports indicated costs aggregating approximately \$9 million. Although increases were identified in the

regular cost-benefit review documents, there was incomplete documentation of management decisions and approvals based on these reports. The Department indicated that regular meetings were held with senior management during the development period but that minutes of the meetings were not prepared.

**10.124** *The Department should ensure that documents reflecting the decisions and undertakings by senior management during development of projects are prepared and retained for future reference.*

**10.125 Project management.** The departmental System Plan of 1978, developed by DMAS, made a number of suggestions that, if implemented, would strengthen project management processes. One recommendation identified the need for timely reports to provide a statement of performance against plan. The project control system in use during our audit did not have this component and it was not possible to assess readily the extent to which individual project tasks met planned targets for costs and manpower resources.

**10.126** *Project control systems should be designed to provide timely comparisons of planned and actual achievements in terms of progress, manpower used and costs incurred.*

**10.127 Financial controls.** During the systems development process, there was considerable involvement by the operational groups. However, the Headquarters financial function, although involved in the functional design process, was not involved on a continuing basis in the detailed design stage to ensure that adequate account was being taken of the need for proper financial controls at appropriate points in the system.

**10.128** *The Department should ensure that adequate involvement by the financial function is maintained throughout the developmental process in all systems having a financial impact.*

## Property Management

**10.129** The Veterans' Land Act was passed in 1942 to assist the veterans of World War II to establish themselves as full-time farmers, part-time farmers or commercial fishermen. Subsequently, the Act was amended to assist veterans of the special Korean forces. Assistance was also provided to veterans who wished to act as their own contractors in the construction of their homes. This Act was one of the major rehabilitation programs available to veterans on their return to civilian life following active wartime service. In 1962, Parliament decided that phasing-out of the program would begin on 31 October 1968. The process was completed on 31 March 1977, with no further loans permitted after that date. Each property remains vested in the name of the Director, Veterans' Land Act, with the veteran holding an agreement of sale until the loan has been paid in full.

**10.130** At the present time, there are approximately 40,000 veterans who have taken advantage of this program and have agreements of sale outstanding. The extent to which the Department estimates the number of agreements of sale will be reduced in the future is shown below:

1980	40,000
1985	27,000
1990	18,500
1995	11,000
2000	5,000
2007	Nil

At 31 March 1980, there were loans outstanding in the amount of \$365 million. If a loan account is kept in good standing by meeting payment deadlines and certain other criteria for an initial 10-year period, part of the loan is forgiven as a conditional grant. The unearned conditional grants outstanding at 31 March 1980 totalled \$21 million. The diminishing trend in loans and unearned conditional grants outstanding as projected by the Department are shown below.

<u>Fiscal Year-End</u>	<u>Balance of Principal</u>	<u>Balance of Unearned Conditional Grants Outstanding</u>
(millions of dollars)		
31 March 1981	\$ 325	\$ 17
31 March 1982	288	14
31 March 1983	253	11
31 March 1984	221	7
31 March 1985	191	2

**10.131** Veterans Land Administration expects to need the following number of person-years, including financial administration, from 1980 through 1984:

1980-81	236
1981-82	225
1982-83	218
1983-84	200

**10.132** Because of the decreasing number of loans outstanding and the cut-off of new loans, we reviewed the plans of the Veterans Land Administration to determine whether an orderly phase-down of operations was in progress and whether functions were being integrated with other operating branches of Veterans Affairs where possible. Our review indicated that this was being done.

**10.133** At the time of our audit, the Department was studying the possibility of converting certain agreements of sale to mortgages and the Department of Justice was considering the legality of such conversions under the current wording of the Veterans' Land Act. We support the Department's efforts. Savings in departmental administrative costs could be achieved through various approaches that would accelerate the phase-down of the Veterans Land Administration.

#### **Internal Audit**

**10.134** Chapter 12 of our 1978 Annual Report presented the results of a government-wide study of internal auditing and established minimum criteria for the performance of such work. Internal audit at DVA was included in this 1978 study. As part of our comprehensive audit, we followed up our 1978 findings and found that the Department had made considerable progress toward meeting major criteria relating to organizational status and audit planning.

**10.135** The Director of Policy, Planning and Evaluation is responsible for the internal audit function and reports to the Deputy Minister. This organization structure is an improvement that has occurred since 1978 when there was a lack of co-ordination among audit groups, contributing to a risk of gaps or duplication in audit coverage. In audit planning, Veterans Affairs had developed a four-year plan, incorporating the major functions and entities subject to audit.

**10.136** **Audit planning and execution.** During the 1979-80 fiscal year, the audit function provided substantially less coverage than originally planned in the 1979-80 Program Forecast. This resulted from a shortage of permanent audit staff, caused at least partially by the planned transfer of the internal audit function to Prince Edward Island during the 1980-81 fiscal year. The head of the financial audit function was also assigned to other duties within the Department during most of the fiscal year, and a competition for a replacement found no suitable candidate. The high turnover of staff also resulted in much of the audit work being performed by staff at a relatively low level and with a minimum of experience.

**10.137** Although long-range plans included audit scope and objectives, the year of audit, audit man-days, estimated costs, and some information on the area subject to audit, the plans did not rank in priority the audits to be carried out. However, the Department indicated that priority was considered in discussing the plans. Establishing priorities within the plans would have, in our opinion, helped Veterans Affairs to recognize the need for contingency plans, including possible use of additional outside contract resources, when reduced coverage was the result of a loss of staff.

**10.138** Until such time as the manpower problem in the internal audit function has been resolved, the Department should develop a contingency plan to ensure satisfactory audit coverage. The possibility of using additional outside contract resources should be considered.

**10.139 Performance of audit work.** Our examination of audit working paper files disclosed a number of deficiencies in the financial audit area. Audits had been carried out without defined standards of performance. The files revealed weaknesses in audit planning, documentation of audit work performed, uniformity in file preparation and reporting procedures. There was also a lack of evidence of file reviews and follow-up on audit observations.

**10.140** The audit group had made little use of systems-based audit techniques and lacked expertise in computer auditing. Both of these weaknesses were brought to the Department's attention in 1978. At the time of our audit, a national accounting firm was retained by the Department to help the financial audit group in fulfilling its responsibilities pertaining to the development of a computerized benefit delivery system. This firm also assisted the audit group in improving their audit skills, especially in the computer systems area. Otherwise, staff members had received minimal training during the last two years, though the shortage of staff must be recognized as a contributing factor.

**10.141** The Department was in the process of staffing positions for relocation of the internal audit function to Prince Edward Island. They also were in the process of preparing an audit manual which was 80 per cent complete at the time of our audit. Both these steps should contribute to improvements in audit coverage and quality of work.

**10.142** The Department should complete the audit manual and train audit staff to ensure that proper auditing methods are understood and employed.

**10.143 Audit committees.** An audit committee structure has been established for Veterans Affairs with separate committees for each program, for the Department, and for the Department and associated agencies (Portfolio) levels. The latter two senior committees are chaired by the Deputy Minister; the program level committees are chaired by the respective program heads.

**10.144** The key responsibilities assigned to program level committees are to:

- review final audit reports; and
- follow up on indicated corrective or improvement action.

We found this level of committee relatively inactive as a result of the reduced number of audits completed and final reports prepared.

**10.145** The Department and Portfolio level committees have adopted broader functions to:

- provide general direction to the audit group;
- annually approve the audit schedule ensuring that all programs and activities have been appropriately considered;
- periodically review the results of audit activities;
- assess the adequacy of resources in terms of both competence and number; and
- advise on the appointment of the head and senior members of the audit group.

**10.146** We noted that audit plans were approved and audit reports and findings were reviewed by the committees. However, based on our findings concerning lack of audit resources and reduced coverage compared to original plans, lack of contingency planning to achieve internal audit objectives, and weaknesses in quality of work performed, we concluded that effective guidance and support to the internal audit function could be enhanced.

**10.147** *The senior audit committees should provide additional guidance and support to internal audit in the planning, staffing and reporting activities of the function.*

### **Reporting to Parliament**

**10.148** As explained in the Introduction to the comprehensive audit chapters, the Office of the Comptroller General has undertaken a project to revise the form and content of the Estimates and Public Accounts. When the Veterans Affairs' sections of these documents are revised, the following audit observations should be taken into account.

**10.149 Performance information.** The Estimates and Public Accounts contain no output or performance data for Veterans Affairs. Data such as efficiency indicators, workload statistics, level of service statistics and effectiveness indicators would be useful in assessing whether Veterans Affairs is giving due regard to obtaining value for the funds provided to it by Parliament. Effectiveness indicators could be developed in the areas of income support and standards of health care. Detailed workload and performance measures would be useful at the activity or sub-activity level.

**10.150      Organizational structure.** Additional organizational information in the form of organization charts could help a reader to understand the complex arrangement of reporting relationships of the various entities that make up Veterans Affairs.

**10.151      Highlights.** A highlights section could include progress reports on Cabinet directives and current status reports on any areas where parliamentarians have indicated a desire for information or where Veterans Affairs believes parliamentarians may have an interest. Current items that might be included would be the relocation of Veterans Affairs Headquarters to Prince Edward Island under the Government's decision to decentralize and progress made in transferring departmental health care institutions under the Cabinet directive of 1963.

**10.152      Expanded narrative for pensions and allowances.** Veterans Affairs currently spends in excess of \$750 million on veterans allowances and disability pensions. In the Estimates and Public Accounts, however, parliamentarians are provided with only one-line statements concerning these expenditures. The Department's annual report provides some statistics on pensions and allowances but most information is historical and projections are not included. Expanded narratives could include projections of the number of recipients of allowances, the benefits to be paid, the basic eligibility criteria, the index factors and escalation dates for allowances, and overall expenditure trends.

**10.153      Payments to and from provinces.** Departmental contributions to the provinces in respect of hospital transfers appear as a one-line entry in Veterans Affairs Estimates. Additional information could include details on payments to provinces and details on revenues received from provinces under their health care schemes, together with statistics on the number of recipients.

**10.154      Veterans land administration.** The annual report of the Department provides historical information on accounts, repayments, revenue received, titles signed over, defaults, and other matters concerning loans made under the Veterans' Land Act. However, certain additional information, such as loan account long-term projections, summaries of loan activities, and terms and conditions of loan agreements, could be provided in the Estimates.

**Summary of Recommendations and Veterans Affairs Comments**

<i>Recommendations</i>	<i>Veterans Affairs Comments</i>
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**Relocation of Headquarters**

**10.36** The Relocation Task Force reporting system should be designed to provide comparisons of planned and actual achievements in terms of progress, manpower used and costs incurred.

This is already done for each element and a report will be created which summarizes and compares the three elements.

**Planning**

**10.42** The Department should ensure that the organization and terms of reference for the planning function will provide adequate planning capability for the Department.

Agreed. This action was initiated prior to the audit and will be completed shortly, when Policy, Planning and Evaluation Directorate is finally staffed and established in Prince Edward Island.

**10.51** When pilot projects are undertaken, clear objectives should be stated and communicated, including the information to be collected and how it is to be evaluated and used.

Agreed.

**10.57** The senior financial function should be involved in the financial evaluation of policy or program initiatives to ensure that costing is appropriate.

Agreed.

**Program Effectiveness**

**10.62** To establish proper accountability in relation to meeting client needs, the Department should clarify and seek parliamentary approval for the objectives of the war veterans allowances activity.

The Department understands the Auditor General's view that Parliament should approve objectives, but is not aware of any mechanism at its disposal for giving effect to this recommendation. The Department will seek guidance from central agencies.

*Recommendations*

*Veterans Affairs Comments*

**10.64** The Department should clarify the objective of health care and identify appropriate measures for reflecting attainment of this objective.

**10.67** Veterans Affairs should clearly differentiate studies of program effectiveness from other types of evaluations and accelerate progress in conducting program effectiveness evaluations.

**Transfer of Hospitals**

**10.73** The Department should continue to seek methods to arrive at an equitable sharing of health care costs between federal and provincial authorities.

**10.77** The Department should clarify whether arrangements for capital payments provided under hospital transfer agreements should be in the form of contributions or grants.

**10.81** The Department should ensure that, once a hospital transfer agreement has been negotiated, proper cut-off procedures are followed. In addition, financial audits should be arranged to take place at the date of transfer.

The Department agrees in principle and will strengthen its efforts to determine quantified indicators and objectives of health care.

Agreed.

Agreed.

The Department will determine the most appropriate mechanism to provide capital payments consistent with the intent of these payments.

Agreed.

*Recommendations*

*Veterans Affairs Comments*

**Operation of Hospitals**

10.89 The Department should ensure that the patient classification system now being used once monthly at Deer Lodge Hospital is upgraded to reflect all elements of care and are used as an objective management aid in setting staffing levels on a day-to-day basis.

10.92 The Department should adopt standard times and frequencies for each cleaning activity at Deer Lodge Hospital and base staffing levels on these standards.

10.93 The Department should take steps to establish a distribution of duties within the Deer Lodge Hospital housekeeping services labour force that will help it to achieve maximum productivity.

10.96 The Department should examine the costs and benefits of upgrading the kitchen and food distribution facilities at Deer Lodge Hospital.

Agreed. The Department has this matter in hand and the target date of 3 November 1980 has been established for implementation.

Agreed. A study is presently in progress as a result of which standard times and revised frequencies have been introduced in some areas.

Agreed. A study has been undertaken which addresses these problems and will result in higher productivity.

Agreed. The Department has had this matter under consideration for some time and money for a feasibility and cost/benefit study has been budgeted for the 1980-81 fiscal year. An in-depth analysis of the present operations with a view to realizing potential efficiencies utilizing outside consultants, was commenced on September 23.

*Recommendations*

*Veterans Affairs Comments*

**Administration of Veterans Allowance Payments**

**10.104** The Department should ensure that procedures for verification of income are adhered to. This should include the production of information for Headquarters, based on the results of random tests, to evaluate the extent to which the income verification system is working.

**10.106** To minimize the dollar amount of over/underpayments, the Department should establish uniform procedures to ensure prompt administrative action when notified of changes in recipients' incomes.

**10.107** The Department should establish uniform procedures to anticipate, to the maximum extent practicable, significant income changes of recipients so that necessary steps can be taken to minimize delay in adjustments.

**Management Information Systems**

**10.111** Prior to implementation of a computer system to serve the longer term, the Department should formally reconsider the degree of direction and assistance it can provide the regions in developing management information systems.

Agreed. Current staffing levels and the need for additional client services did not permit adequate monitoring and control in this area. The Department initiated development of automated Benefit Delivery Systems some time ago, in recognition of this.

Agreed. Existing procedures will be strengthened as an interim measure pending full implementation of the Benefit Delivery System.

Agreed. The Benefit Delivery System currently being developed will provide automatic notification in advance of forecast income changes.

Agreed.

*Recommendations*

*Veterans Affairs Comments*

### Pensions Compensation

**10.118** As a basis for measuring actual performance, the Canadian Pension Commission should formalize processing time standards, to the maximum extent practicable, in all areas of the pension adjudication process within its control.

A control system is now in effect which enables practical measurement of actual performance. Based on this experience the Commission will establish formal processing time standards to the extent practicable.

### Computer Systems Development

**10.124** The Department should ensure that documents reflecting the decisions and undertakings by senior management during development of projects are prepared and retained for future reference.

Agreed. Project documentation will in future reflect the decisions taken by senior management.

**10.126** Project control systems should be designed to provide timely comparisons of planned and actual achievements in terms of progress, manpower used and costs incurred.

Agreed. This is already done for each element and a report will be created which summarizes and compares the three elements.

**10.128** The Department should ensure that adequate involvement by the financial function is maintained throughout the developmental process in all systems having a financial impact.

Agreed. Steps are being taken to obtain the resources necessary to undertake these tasks.

### Internal Audit

**10.138** Until such time as the manpower problem in the internal audit function has been resolved, the Department should develop a contingency plan to ensure satisfactory audit coverage. The possibility of using additional outside contract resources should be considered.

Agreed.

<i>Recommendations</i>	<i>Veterans Affairs Comments</i>
<b>10.142</b> The Department should complete the audit manual and train audit staff to ensure that proper auditing methods are understood and employed.	Agreed. This manual has been completed since the time of the audit and a training plan is in effect.
<b>10.147</b> The senior audit committees should provide additional guidance and support to internal audit in the planning, staffing and reporting activities of the function.	Agreed.



**OBSERVATIONS ON THE FINANCIAL STATEMENTS  
AND OPERATIONS OF CROWN CORPORATIONS  
AND OTHER ENTITIES**



## **OBSERVATIONS ON THE FINANCIAL STATEMENTS AND OPERATIONS OF CROWN CORPORATIONS AND OTHER ENTITIES**

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## OBSERVATIONS ON THE FINANCIAL STATEMENTS AND OPERATIONS OF CROWN CORPORATIONS AND OTHER ENTITIES

**11.1 Introduction.** This Chapter comments on certain qualifications and other matters included in our audit reports on the annual financial statements of Crown corporations and other entities. Paragraphs 11.6 to 11.17 describe these matters and elaborate on the more significant qualifications in our audit opinions.

**11.2** This Office audits and reports on the annual financial statements of 34 of the agency and proprietary Crown corporations listed in Schedules C and D to the Financial Administration Act (FAA). Audits of these corporations are carried out and reported on in accordance with the provisions of section 77 of the FAA which requires the auditor to "...call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament."

**11.3** This Office also audits and reports on the annual financial statements of 52 other separate entities. These include departmental Crown corporations listed in Schedule B to the FAA, and boards, commissions, territorial governments and their agencies, separate funds and special accounts such as the Exchange Fund Account, the Canada Pension Plan Account and the Unemployment Insurance Account.

**11.4** Our audit reports on current year financial statements include qualified opinions or other observations where we found:

- deficiencies or inconsistencies in the application of stated accounting policies;
- major uncertainties which were unresolved at the reporting date; or
- significant transactions that were not within the statutory powers of a corporation.

**11.5** Although Treasury Board policy does not require the Auditor General to express opinions on the financial statements of revolving funds which we audit as part of our departmental audits, a separate audit report was issued on the financial statements of the Airports Revolving Fund at the request of the Deputy Minister of Transport. As in 1979, our opinion was qualified (see paragraph 11.6).

**11.6 Airports Revolving Fund - Failure to record termination benefits.** Employees of the Canadian Air Transportation Administration, who operate the airports financed through the Airports Revolving Fund, receive termination benefits on separation or retirement. As in 1979, no provision for the benefits accruing to these employees at the fiscal year end has been made in the accounts nor has the liability been calculated. In our audit report to the Minister of Transport, our opinion on the Airports Revolving Fund financial statements was qualified accordingly.

**11.7 Atomic Energy of Canada Limited - Uncertainty as to disposition of the La Prairie heavy water plant.** In 1974, Atomic Energy of Canada Limited began construction of a 725 metric-ton-per-year heavy water plant near Gentilly, Quebec. Pursuant to a broad-ranging expenditure restraint program, and because of reduced demand for heavy water, the Government of Canada announced in August 1978 that it planned to suspend construction of the La Prairie heavy water plant, and the Company proceeded to mothball the plant in an orderly manner consistent with retention of the asset base. Mothballing will be completed in 1980. Subject to certain conditions, the Company has received approval in principle from the Government of Canada for the recovery of mothballing costs and suspension of interest on the La Prairie loans during the mothball period. At 31 March 1980, the conditions, which are outside the control of the Company, had not been met.

Financing was provided primarily by loans from the Government of Canada of \$442.2 million. During the year, the carrying value of the plant was increased to \$442.8 million by capital expenditures of \$33.5 million and capitalized interest charges of \$30.6 million. No write-down of the assets has been recorded in recognition of technical obsolescence or physical deterioration of the plant. The Company has discussed the final disposition of the asset and the related loans with the Government of Canada and, pending a final decision by the Government, the Company has retained in its accounts the plant costs and loans at their book values.

The ultimate disposition of the plant and the related advances depend on a decision by the Government of Canada, and in our audit report to the Minister of Energy, Mines and Resources, our opinion on the financial statements of the Company for the year ended 31 March 1980 was qualified accordingly.

Our report to the Minister also stated that the transactions that have come under our notice have been within the statutory powers of the Company, except for the payment during the year of certain La Prairie mothballing costs. These costs, amounting to approximately \$8 million, have been funded from the La Prairie loan, which was originally advanced to the Company for the purpose of construction.

**11.8 Atomic Energy of Canada Limited - Impairment in value of Glace Bay and Port Hawkesbury heavy water plants.** Atomic Energy of Canada Limited owns and operates heavy water plants near Glace Bay and Port Hawkesbury in Nova Scotia. These plants are financed primarily by advances from the Government of

Canada. Reduced demand for Canadian heavy water in both domestic and export markets will, for the foreseeable future, result in excess capacity in these plants. Forecast sales of heavy water will not generate sufficient revenues to repay loans related to the purchase and rehabilitation of the plants. Studies have been initiated by the Company on plant valuation, and discussions have been held with the Government of Canada seeking forgiveness and refinancing of the loans. The preliminary findings of the studies indicate that the Company's heavy water facilities are unlikely to achieve profitable operation in the foreseeable future and suggest a significant impairment in the value of these facilities. The Company is carrying the plants at a depreciated net book value of \$322.6 million, and related indebtedness to the Government of Canada of \$450.8 million on its balance sheet, pending the outcome of the studies and a decision by the Government on the request made by the Company.

The ultimate determination of the value of the plants and the disposition of the related indebtedness depend on completion of the studies and a decision by the Government of Canada and, in our audit report to the Minister of Energy, Mines and Resources, our opinion on the financial statements of the Company for the year ended 31 March 1980 was qualified accordingly.

**11.9 Canada Employment and Immigration Commission - Benefit and Overpayment System.** Our 1979 Report (paragraph 18.10) drew attention to weaknesses in the control of the benefit and overpayment system of the Unemployment Insurance Account. Our audit report to the Minister of Employment and Immigration on the financial statements of the Unemployment Insurance Account for the year ended 31 December 1979 disclosed that the Commission had addressed observations raised in previous Reports. However, the audit established that in 1979 some benefits could have been paid to claimants who were not entitled to these benefits or that some benefits could have been underpaid to other claimants.

Modification of existing systems or implementation of new ones in the application of the Unemployment Insurance Act requires several years work. During 1979, the Commission continued its efforts to implement new systems or modify existing ones to improve the decision-making process and internal controls. Since these changes were in place for only part of 1979, and because of the gradual implementation of new control systems and other procedures, it was agreed, after discussion with senior officials of the Commission, that the changes made in 1979 would not have a significant impact on the reduction of overpayments and underpayments for that year. Consequently, the objectives and scope of our 1980 study on the benefit payments of 1979 were modified.

Based on the results of our study of claimants who received benefits for 1979, we established that overpayments and underpayments not previously identified by the Commission still exist. Because of modification to the scope of our study, we were not able to estimate for 1979 amounts of overpayments and underpayments; however, the study indicated that they would not differ significantly from those of 1978 which were estimated to be \$290 million and \$67 million respectively. The current year's study continues to indicate that, in a

large number of instances, the Commission did not adhere to all its administrative procedures in processing continuing benefit payments and that some part of the amounts paid could have represented further overpayments and underpayments.

The Commission has undertaken a number of significant system changes during 1979 that it believes will improve controls over the benefit and overpayment system. These changes include:

- a Decision Monitoring System, implemented gradually from April 1979, designed to ensure that all transactions that have been authorized and approved by insurance agents of the Commission are processed by regional pay centres;
- a new Record of Employment form and system implemented, beginning May 1979, to reduce the incidence of errors in data supplied by employers; and
- a new Report on Hirings System which is gradually being phased in and which requests employers to supply the Commission, on a voluntary basis, with information on the hiring of new employees.

This Office will continue to monitor the results of these changes and, in future years, will conduct detailed studies of benefits paid to claimants to measure the effect of these changes.

#### **11.10 Canada Pension Plan - Funding of the Plan.** These comments are essentially unchanged from those in the 1979 Report (paragraph 18.11).

In accordance with the provisions of the Canada Pension Plan, the financial statements show the transactions through the Canada Pension Plan Account and the Canada Pension Plan Investment Fund, and changes in the balances of these accounts for the year ended 31 March 1980. The Plan operates on a current basis with benefits being paid out of current contributions. We have noted in our audit report to the Minister of National Health and Welfare that these statements of transactions are not intended, nor do they purport, to show the adequacy of the balance in the Canada Pension Plan Account to meet, on an actuarial basis, the future obligations of the Canada Pension Plan.

The following information is provided in Note 2 to the financial statements:

When the Canada Pension Plan was introduced in 1966, the combined employer-employee contribution rate was set at 3.6% of the Contributory Earnings with the understanding that this would be more than sufficient to meet the costs of benefits and administration for a certain period of time, but not indefinitely. In the initial years, a fund would be built up from which resources would be made available to provinces as loans. However, since the inception of the Plan, it has been recognized that the 3.6% contribution rate would need to be raised at some point in the future.

Under the Canada Pension Plan legislation, the Chief Actuary of the Department of Insurance is required to prepare an actuarial report on the operation of the Act and the state of the Canada Pension Plan account at least once every five years. The latest quinquennial report was tabled in the House of Commons on December 18, 1978. That report indicated that if no changes were made to the combined employer-employee contribution rate of 3.6%, the annual cost of benefits and expenses would exceed the amount of annual contributions by the year 1985.

After 1985, a gradually increasing proportion of the interest on investments would be needed to finance pension benefits and administrative costs, and no further funds, apart from the reinvestment of a portion of interest owed to the Fund, would be available to the provinces as loans. The Fund would continue to grow until 1992 when all of the interest would be needed to meet payments. If the increase in the contribution rate were delayed beyond 1992 it would become necessary to start recalling loans to the provinces, and by the year 2003, the fund would be exhausted.

The report also projected the future contribution rates which would be required to raise enough money in each year to pay for benefits and administrative expenses. On the basis of the actuarial assumptions made in the report, those rates would have to rise gradually from the current combined contribution rate of 3.6% to 3.64% in 1985, to 4.57% by 1990, to 5.53% by 2000, and to 8.62% by 2025.

The Chief Actuary estimated that if principles of 'actuarial funding' were applied to the Canada Pension Plan, an additional \$81.3 billion would have to be invested in the Fund at December 31, 1977 to provide sufficient funds to pay the future benefits of all contributors and former contributors to the Plan at that time. The Chief Actuary also estimated, based on generally the same assumptions made in the December 31, 1977 report, except for a short deferral in the decline of the rates of interest on new investments, that if the current contribution rate remains unchanged, the additional amount of \$81.3 billion required to pay all future benefits would increase by approximately \$7 billion per year in 1978 and 1979.

We first drew the attention of Parliament to the Canada Pension Plan projected deficiency in Paragraph 17.6 of our 1977 annual Report. In accordance with a commitment made by our Office at a meeting of the Standing Committee on Public Accounts held on 8 June 1978, we retained the services of independent actuaries to review the Statutory Actuarial Report which was tabled on 18 December 1978. In the opinion of these independent actuaries, based on their examination of the report, the assumptions taken in their entirety are reasonable and appropriate and the methodology is appropriate and correct. Further, it is the independent actuaries' opinion that the report presents fairly the future operation of the Canada Pension Plan Account and the emerging revenues, benefit payments and expenses of administration.

The following information has also been provided in Note 2 to the financial statements:

While the Canada Pension Plan is administered by the Government of Canada, the Government does not have exclusive authority to effect changes to the Plan. Under existing legislation, any proposed enactment to alter the general level of benefits or the rate of contributions requires at least a two year and one day period of exposure to Parliament before coming into force, and agreement by at least two-thirds of the ten provinces having an aggregate of not less than two-thirds of the population. In February 1977, the Ministers of Finance and the Provincial Treasurers asked their officials to assess Canada Pension Plan financing issues. The resultant report will, among other things, examine and analyze the economic, social and financial effects of the Canada Pension Plan, and recommend alternative policies to the Finance Ministers and Provincial Treasurers.

**11.11 Canadian Arsenals Limited - Failure to capitalize fixed assets and record depreciation.** The qualification reported in this paragraph is the same as that reported in the 1979 Report (paragraph 18.12).

The Company uses fixed assets which cost approximately \$23.5 million. Fixed assets purchased with funds provided from its annual parliamentary appropriation are considered by the Company to be owned by Canada and, therefore, are not recorded as assets on the Company's balance sheet. The Company does not pay for the use of these assets, and a fair value for their use has not been determined.

In our opinion, fixed assets, purchased with funds provided by appropriations, should be included as assets on the balance sheet, and a corresponding amount should be included under the equity of Canada. Generally accepted accounting principles require capitalized assets to be depreciated over their useful life on a systematic and rational basis. Failure to capitalize these assets and record depreciation creates a distortion both in the results of operations for the year and in the equity of Canada in the Company at 31 March 1980.

Certain fixed assets, mainly land and buildings, were paid for by Canada before the Company was incorporated and are still owned by Canada. Non-inclusion of a charge in the income statement for the use of such assets also distorts the net income for the year.

In our audit report to the Minister of Supply and Services, our opinion on the financial statements of the Company for the year ended 31 March 1980 was qualified accordingly.

**11.12 Canadian Commercial Corporation - Possible effect on financial position of uncertain outcome of litigation.** A contractor began legal action against the Corporation in 1975 as a result of the termination of a portion of a contract. The plaintiff is claiming damages of \$6.8 million, as well as costs and

interest at 12 per cent per annum since 7 December 1972. The action is contested and, although management is of the opinion that the Corporation will be successful, the outcome is still uncertain. Any possible adverse effect on the Corporation's financial position will not be known until the litigation has been resolved. As a result of this uncertainty, in our audit report to the Minister of Industry, Trade and Commerce, our opinion on the Corporation's financial statements for the year ended 31 March 1980 was qualified.

**11.13 Canadian Saltfish Corporation - Economic uncertainties surrounding a non-operating plant acquired during the year.** In March 1979, the Board of Directors of the Canadian Saltfish Corporation approved the purchase of a fish processing plant and related buildings and equipment for \$800,000. The Corporation acquired title to this plant in November 1979. This processing facility was purchased in anticipation of an increased supply of salt fish beyond the capacity of existing processors. This increased supply did not materialize and, as a result, the plant remained idle during the year. At the completion of our audit, the plant was still not operating, and the Corporation was in the process of identifying parties interested in buying, leasing or operating the plant.

The acquisition of the plant was recorded at cost in the Corporation's accounts for the year ended 31 March 1980. However, because the plant has not operated since it was acquired, it is uncertain whether this cost can be recovered from future operations. Further, if the plant is to be leased or sold, it is uncertain whether the cost would be entirely recovered. In our audit report to the Minister of Fisheries and Oceans, our opinion on the financial statements of the Corporation for the year ended 31 March 1980 was qualified accordingly.

**11.14 The Exchange Fund Account - Valuation of gold.** The Exchange Fund Account is an account in the name of the Minister of Finance, established under the provisions of the Currency and Exchange Act and administered by the Bank of Canada, to aid in the control and protection of the external value of the Canadian dollar. Included in the assets of the Account at 31 December 1979 are Government of Canada holdings of 22,178 thousand troy ounces of fine gold.

Section 16 of the Currency and Exchange Act defines valuation gains and losses, for purposes of determining the Account's net income, as the difference between book value and market value of assets and liabilities at the end of an accounting period. Such gains or losses are included in the Account's net income in equal amounts in the current and two succeeding years. The net income of the Account is paid over each year to the Consolidated Revenue Fund.

In accordance with Exchange Fund Account policy, the book value of gold is not adjusted to its commodity market value (U.S. \$524.00 per troy ounce at 31 December 1979), but is recorded at its approximate historical cost (U.S. \$46.11 per troy ounce at 31 December 1979).

Our audit report to the Minister of Finance for the year ended 31 December 1979 disclosed this matter as an item that should be brought to the attention of Parliament. Officials of the Department of Finance have indicated

they will propose an amendment to the Currency and Exchange Act stipulating that, for purposes of determining income under section 16 of the Act, gold may be valued at other than commodity market value.

**11.15 The Jacques Cartier and Champlain Bridges Incorporated - Dependency on future parliamentary appropriations.** Pursuant to Governor in Council approval (PC 1978-3139) dated 12 October 1978, the assets and liabilities of The Jacques Cartier and Champlain Bridges and the federally-owned section of the Bonaventure Autoroute were transferred from the National Harbours Board to The Jacques Cartier and Champlain Bridges Incorporated, effective 1 December 1978. At that date, total liabilities, which included \$38.9 million of interest in arrears on loans, exceeded the net book value of the assets transferred to the Corporation by \$72.5 million. At 31 March 1980, total interest in arrears on loans was \$41.7 million.

A review of the operations indicated that it is doubtful that the Corporation will be able to discharge fully its obligations without future parliamentary appropriations.

This matter was disclosed in our audit report to the Minister of Transport for the year ended 31 March 1980 as an item that should be brought to the attention of Parliament.

**11.16 Loto Canada Inc. - Possible effect on financial position of uncertain outcome of litigation.** Certain wholesalers of lottery tickets who operated in the Province of Quebec have commenced legal proceedings against the Crown, claiming damages totalling \$5.9 million for alleged breach of contracts. One of these claims was dismissed by the Court and a notice of appeal was filed on 31 July 1980. Furthermore, certain wholesalers of lottery tickets who operated in other provinces have commenced legal proceedings against the Corporation. The amount of these latter claims had not yet been declared by the wholesalers. The legal proceedings are being contested and the outcome is unknown.

Since the financial effect, if any, of the outcome of this litigation on the financial position of the Corporation is unknown, our audit opinion, reported to the Minister of Labour, on the financial statements of the Corporation for the year ended 31 March 1980 was qualified.

**11.17 National Capital Commission - Improper disclosure of unexpended balance of parliamentary appropriation, and failure to record depreciation.** In the year ended 31 March 1980, the National Capital Commission received an amount of \$31.6 million under the authority of Vote 65 in respect of net operating expenditures. Of this amount, \$2.6 million was not expended by the Commission at 31 March 1980, and it is our opinion that it should be returned to the Consolidated Revenue Fund in 1980-81 and accounted for, as in prior years, as a current liability at 31 March 1980. The Commission is of the view that the \$2.6 million need not be returned to the Government and has disclosed the amount as a deferred liability under the heading "General Fund". The effect on the

Commission's financial statements of not recording this unexpended balance as an amount owing to Canada is an understatement of the current liabilities and working capital deficiency of \$2.6 million respectively, as well as an improper disclosure of a liability under the caption of "General Fund".

In our view, such amounts should only be used for operating expenditures of the year, and any excess of amounts received over amounts expended should lapse in accordance with the Financial Administration Act and be returned to the Consolidated Revenue Fund in the following year. We believe that this position is consistent with the intentions of Parliament as reflected in the wording of Vote 65 and in other similar appropriations. Furthermore, parliamentary control is lost if the annual appropriation received by the Commission in a particular year is used to finance expenditures of a future year in excess of the amounts approved by Parliament for that year, thus supplementing future years' appropriations. These funds could also, under these circumstances, be used for purposes other than those authorized by Parliament in the appropriation.

In addition, as in previous years, the Commission failed to record depreciation in its accounts. It charges the entire cost of acquiring or improving capital assets to the National Capital Fund or General Operations in the year of expenditure, rather than providing for annual depreciation on assets susceptible to deterioration and obsolescence over the estimated service period during which the assets produce revenue or benefit the public. Such assets include parkways, bridges and approaches, recreational facilities, property held for development, administration and service buildings, equipment, furniture and vehicles.

In our audit report to the Minister of Public Works, our opinion on the financial statements of the Commission for the year ended 31 March 1980 was qualified accordingly.

**11.18 Entities included in Volume I of the Public Accounts.** Financial statements for the following entities, together with our audit reports on them, are included in Volume I of the Public Accounts under the following sections:

### **Section 7**

Canada Pension Plan Account  
Canada Pension Plan Investment Fund  
Government Annuities Account  
Royal Canadian Mounted Police (Dependants) Pension Fund  
Unemployment Insurance Account

### **Section 9**

Exchange Fund Account

**11.19 Entities included in Volume II of the Public Accounts.** Financial statements for the following entities, together with our audit reports on them, appear in Volume II of the Public Accounts under the heading of their related departments:

**Agriculture**

Agricultural Products Board  
Agricultural Stabilization Board

**External Affairs**

International Development Research Centre

**Fisheries and Oceans**

Fisheries Prices Support Board

**Industry, Trade and Commerce**

Standards Council of Canada

**Labour**

Canadian Centre for Occupational Health and Safety

**National Health and Welfare**

Medical Research Council

**Privy Council**

Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in  
Research on the Diseases of Children  
Economic Council of Canada

**Science and Technology**

Natural Sciences and Engineering Research Council  
Science Council of Canada

**Secretary of State of Canada**

Canada Council  
National Arts Centre Corporation  
National Film Board  
National Museums of Canada  
Social Sciences and Humanities Research Council

**11.20      Crown corporations included in Volume III of the Public Accounts.**  
Financial statements for the following Crown corporations, together with our audit reports on them, are included in Volume III of the Public Accounts.

Atlantic Pilotage Authority  
Atomic Energy of Canada Limited

Canada Deposit Insurance Corporation  
Canadian Arsenals Limited  
Canadian Broadcasting Corporation  
Canadian Commercial Corporation  
Canadian Dairy Commission  
Canadian Film Development Corporation  
Canadian Livestock Feed Board  
Canadian National (West Indies) Steamships, Limited  
Canadian Patents and Development Limited  
Canadian Saltfish Corporation  
Crown Assets Disposal Corporation  
Defence Construction (1951) Limited  
Eldorado Aviation Limited  
Eldorado Nuclear Limited  
Export Development Corporation  
Farm Credit Corporation  
Freshwater Fish Marketing Corporation  
Great Lakes Pilotage Authority, Ltd.  
The Jacques Cartier and Champlain Bridges Incorporated  
Laurentian Pilotage Authority  
Loto Canada Inc.  
National Battlefields Commission  
National Harbours Board  
Northern Canada Power Commission  
Northern Transportation Company Limited  
Pacific Pilotage Authority  
Royal Canadian Mint  
The St. Lawrence Seaway Authority  
The Seaway International Bridge Corporation, Ltd.  
Teleglobe Canada  
Uranium Canada Limited

**11.21 Entities excluded from the Public Accounts.** We also report on the financial statements of the following entities which do not appear in the Public Accounts.

Airports Revolving Fund  
Army Benevolent Fund  
Canadian Army Welfare Fund  
Canadian Broadcasting Corporation Pension Board of Trustees  
Canadian Forces Personnel Assistance Fund  
Canadian Grain Commission  
Citizens' Repatriation League Incorporated  
Compensation Fund (Yukon Territory)  
Eldor Resources Limited  
Eldorado Pension Plan (1959)  
Government of the Northwest Territories  
Government of the Yukon Territory  
Grimshaw Trucking and Distributing Ltd.  
International Commission for the Northwest Atlantic Fisheries

International Fisheries Commissions Pension Society  
National Capital Commission  
Northern Pipeline Agency  
Northern Transportation Pension Plan  
Northwest Atlantic Fisheries Organization  
Northwest Territories Housing Corporation  
Northwest Territories Liquor Control System  
Northwest Territories Workers' Compensation Board  
Parliamentary Restaurant  
Pinawa General Hospital  
Post Office Guarantee Fund  
Public Works Lands Company Limited  
Royal Canadian Air Force Benevolent Fund  
Royal Canadian Mounted Police Benefit Trust Fund  
Royal Canadian Mounted Police Fine Fund  
Royal Canadian Naval Benevolent Fund  
Yukon Housing Corporation  
Yukon Liquor Corporation

**OBSERVATIONS REPORTED UNDER  
SECTIONS 7 AND 11 OF THE  
AUDITOR GENERAL ACT**



**OBSERVATIONS REPORTED UNDER SECTIONS 7 AND 11  
OF THE AUDITOR GENERAL ACT**

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## OBSERVATIONS REPORTED UNDER SECTIONS 7 AND 11 OF THE AUDITOR GENERAL ACT

### Introduction

12.1 This Chapter reports on three types of matters:

- observations on matters raised in previous Reports that have not been adequately dealt with by the Government;
- observations made for the first time that have not been included elsewhere in the Report; and
- observations on our audit of the Oil Import Compensation Program, conducted at the request of the Governor in Council under section 11 of the Auditor General Act.

12.2 The departments and agencies for which comprehensive audits were reported in 1978 and 1979 were asked by the Standing Committee on Public Accounts to update their comments on our recommendations to 1 May 1980. Their reports have been received by the Committee.

### Observations Reported Under Section 7 of the Auditor General Act

#### Observations on Matters Raised in Earlier Reports

12.3 **Department of Fisheries and Oceans - Inadequate control over Inshore Fisheries Rehabilitation Program.** Our 1979 Report (paragraph 19.15) drew attention to the inadequate control over the Inshore Fisheries Rehabilitation Program administered by the Department of Fisheries and Oceans. This four-year program, now estimated to cost \$17.5 million, is designed to upgrade the quality and value of the catch of inshore fish from Newfoundland and Labrador by providing fish-handling facilities and equipment at landing sites and fish containers for rental to processors. The Department had informed us that steps had been taken to correct the problems that we had identified. This year we observed that, although the Department had taken corrective action with respect to some of our observations, there were still control weaknesses in the program.

For example, appropriate administrative procedures were not followed for the installation of fish-handling facilities in Newfoundland and Labrador. The Canadian Saltfish Corporation again acted as administrator for the Department without a formal agreement and without the Department ensuring that the Corporation would obtain competitive prices in accordance with Treasury Board contract regulations. There was unsatisfactory financial control in that the Department did not impose any limit on the expenditures to be incurred by the

Corporation. As a consequence, the Corporation expended \$2.4 million while the Department had budgeted only \$1.3 million for this aspect of the program. Although the Department advised the Corporation that the work was to be carried out "with no provision or latitude for the purchase/acquisition of supplies and equipment", this requirement was not respected by the Corporation's contractors who, in addition charged administration fees and profit percentages on such purchases.

In our view, the Department's control over rental income from the fish containers was inadequate. For example, there was not a proper division of duties among the staff for negotiating rental agreements, billing rentals and cancelling rental charges. Moreover, billings were not made on a timely basis. The 1980 rentals, amounting to approximately \$756,000, which were to be paid by 1 February 1980 according to the terms of the leases, were invoiced in September 1980.

The Department paid \$425,000 for net bags to be used in the program and distributed them free to fishermen. This contravened section 52 of the Financial Administration Act which requires the approval of the Governor in Council for public property transfers, leases or loans. In addition, the distribution procedure used was not fully documented.

We also noted that, although the system technology for the program had been worked out in feasibility and design studies before commencement of the program, it had never been tested under actual conditions. The Department implemented the program at all 187 sites without having conducted full operational trials. We noted that, because of the lack of testing, modifications were required to some of the equipment purchased and approximately \$120,000 in equipment was totally unsatisfactory and could not be utilized in the program. Costs related to the modifications and unsatisfactory equipment were not recoverable from the suppliers.

The Department has reviewed and continues to improve the management controls over this program.

**12.4 Acquisition of Radio Engineering Products Limited as satisfaction for debts to the Crown.** Our 1972 Report (paragraph 101) described the circumstances which led to the acquisition of Radio Engineering Products Limited in 1972 as satisfaction for debts of \$4.3 million due to the Crown. Our 1978 Report (paragraph 22.15) summarized subsequent events which led the company to file a voluntary declaration of bankruptcy in 1975, when the indebtedness had increased to \$6 million.

In our 1979 Report (paragraph 19.11) we reported that \$448,000 was on deposit at 31 March 1979. The Trustee in Bankruptcy has informed us that he had \$503,000 on deposit at 31 March 1980 and that the indebtedness to the Crown was still outstanding.

Continuation of litigation or other appropriate action by the Crown is being considered by the creditor departments of Industry, Trade and Commerce, Supply and Services, and National Revenue. Final action is pending.

**Other Audit Observations Under Section 7 of the Auditor General Act**

**12.5 Department of Agriculture - Inadequate financial procedures resulting in loss of revenue and parliamentary control.** In 1976, the Department of Agriculture entered into an agreement with a co-operative to make a contribution of \$6 million toward the cost of constructing a grain terminal. This agreement was amended on 31 March 1977 to increase the Department's contribution to \$9 million. In May 1977, \$8 million was deposited in a trust account, to be held in trust for the Minister of Agriculture for Canada, according to the terms of the agreement. Funds for this agreement were appropriated under Vote 20 for the fiscal years 1976-77 (\$500,000), 1977-78 (\$8 million) and 1978-79 (\$500,000).

Immediately after deposit, and without the knowledge of the Department, the bank used the common-law right of set-off and applied the \$8 million against existing operating loans of the co-operative, thus using government funds for a purpose not approved by Parliament. The Department challenged the legality of the right of set-off, and the bank subsequently guaranteed to return to the Crown any unapplied portion of the original \$8 million, with interest, after completion of the project. However, this guarantee was not called upon because the project was certified complete on 15 February 1980, and the Department remitted the balance of the project contribution to the co-operative.

As a result of the transfer of funds from the trust account, the Consolidated Revenue Fund lost interest amounting to approximately \$700,000. In addition, the deposit into a trust account circumvented parliamentary control: had section 30 of the Financial Administration Act been followed, the balance at 31 March 1978 of \$4.65 million would have lapsed and Parliament would have had the opportunity to either approve or reject additional funds for the following year.

**12.6 Office of the Commissioner of Official Languages - Expenditure in excess of appropriation.** For the year 1979-80, the Office of the Commissioner of Official Languages received the authority to pay program expenditures totalling \$3,908,400. This authority was obtained by the Appropriation Act, granting an Interim Supply of \$2,422,500 for the expenditures disclosed in the Main Estimates and by Special Governor General's Warrants of \$1,485,900.

During the year, expenses charged against the appropriation amounted to \$4,223,523, of which \$315,123 was in excess of the appropriation. This contravened section 21 of the Financial Administration Act which states that no payment shall be made in excess of expenditures authorized.

The Office of the Commissioner of Official Languages had anticipated that additional program expenditures in the amount of \$350,000 included in Special Governor General's Warrants issued before 15 November 1979 would be authorized by supplementary appropriation. However, this amount was not included in the Appropriation Act submission for Interim Supply and therefore was not approved.

**12.7 Department of Labour - Expenditure in excess of appropriation.** Vote 1 of the Department of Labour provided \$19,487,400 for operating expenditures and the expenses of delegates engaged in activities related to Canada's role in international labour affairs. The expenditures charged to the Vote amounted to \$20,067,500, which was \$580,100 in excess of the appropriation. The payment of such excess expenditure contravened section 21 of the Financial Administration Act. The overexpenditure of the appropriation resulted from inadequate budgetary control by the Department.

**12.8 Department of Transport - Improper charge to 1979-80 appropriation.** Section 30 of the Financial Administration Act permits payments to be made and charged to the appropriation of a fiscal year in the 30 days following the year end if the payments are for work performed or services rendered before the year end or become payable before year end under any other contractual arrangement.

In April 1980, the Department of Transport paid \$233,000 to the Government of the Yukon Territory and the Government of the Northwest Territories to cover estimated operating deficits for arctic airports in accordance with a memorandum of understanding and the Arctic Air Transportation Facility Policy. This amount, which was charged to the 1979-80 appropriation, related to the period 1 April to 30 June 1980 and should have been charged to the 1980-81 appropriation.

**Observations Reported Under Section 11  
of the Auditor General Act**

**Oil Import Compensation Program**

**12.9 Introduction.** In 1974, at the request of the Governor in Council, we undertook a continuing inquiry, under section 62 of the Financial Administration Act, into the administration of expenditures of the Oil Import Compensation Program.

The program was administered by the Department of Energy, Mines and Resources until 31 October 1974, and then by the Energy Supplies Allocation Board which reports to the Minister of Energy, Mines and Resources. In 1978, the Energy Supplies Allocation Board was renamed the Petroleum Compensation Board.

Under the program, importers of crude oil and petroleum products are compensated so as to cushion the Canadian economy from the impact of the large and rapid increases in the price of imported crude oil used in Canada.

**12.10 Summary of transactions.** A summary of appropriations and expenditures for the seven years to 31 March 1980 under the Oil Import Compensation Program is as follows:

*Other Audit Observations*

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Expenditures</u>
(thousands of dollars)		
1973-74	\$ 240,000	\$ 157,000
1974-75	1,165,000	1,162,000
1975-76	1,685,000	1,582,000
1976-77	1,410,000	945,000
1977-78	925,000	925,000
1978-79	631,000	628,000
1979-80	<u>1,800,000</u>	<u>1,633,000</u>
	<u><u>\$ 7,856,000</u></u>	<u><u>\$ 7,032,000</u></u>

During the fiscal year ended 31 March 1980, world prices of oil increased at a faster rate than domestic prices. As a result, the rate of compensation paid to importers increased significantly, accounting for almost all of the \$1 billion increase over the previous year. Volumes imported decreased by a small amount and had a negligible effect on total compensation paid.

**12.11 Petroleum Compensation Revolving Fund.** In April 1978, legislative authority was obtained for the imposition of a levy on domestic and foreign petroleum as well as on foreign petroleum products that have been processed, consumed or sold in Canada. The proceeds from the levy are for the sole purpose of assisting in meeting the cost of paying compensation on designated high cost domestic petroleum as authorized in section 72(4) of the Petroleum Administration Act, S.C. 1974-75-76, c. 47. Domestic synthetic crude has been designated as high-cost petroleum.

For administrative purposes, the levy and compensation payments under section 72(4) are handled separately in the Petroleum Compensation Revolving Fund.

The results of the operations of the Fund since inception are as follows:

<u>Fiscal Year</u>	<u>Levy</u>	<u>Expenditures</u>	<u>Surplus (Deficit)</u>
(thousands of dollars)			
1978-79 (9 months)	\$ 88,000	\$ 24,000	\$ 64,000
1979-80	400,000	406,000	(6,000)

**12.12 Observations arising from our examination.** The following significant matters have come to our attention during our examinations:

- *Special freight compensation for cargoes lightened in the Caribbean en route to Canada.* In the 1979 Report, it was noted

that \$2.2 million of excessive freight compensation paid to two importers remained uncollected pending the results of legal action taken by a third importer. The courts ruled in favour of the Board and the outstanding amounts were recovered from the two importers, one of whom has commenced legal action to reverse the \$1.9 million recovery action taken by the Board.

- *Method of deducting oil exports.* In the 1979 Report, it was pointed out that importing companies must refund compensation on imported oil which is subsequently exported. We noted one case where, in our view, the method used by an importer to deduct exports resulted in excessive compensation of \$3 million (since revised to \$3.7 million). The Board does not concur with our view and has referred the matter to the Department of Justice without action being taken, pending receipt of an opinion.

**12.13 Audit scope.** The Petroleum Compensation Board, by virtue of its policy and program regulations, has recognized the need to have some audit work performed on all claims submitted for compensation and on all petroleum production levy payments received. Accordingly, the Board has made arrangements with independent auditors, generally the claimants' shareholders' auditors, to confirm that the supporting documentation provided to the Board by the oil companies agrees with documentation in the records of such oil companies and to conduct certain other specific tests. The Board's staff performs similar audits on claims of small importers and on all claims under the new high-cost domestic petroleum program. The petroleum levy, on the other hand, is audited by the audit staff of the Department of National Revenue - Customs and Excise, pursuant to an Order in Council under section 5(3) of the Energy Supplies Emergency Act, S.C. 1973-74, c. 52.

At 31 July 1980, the following amounts of compensation had not been reported on by the claimants' auditors:

<u>Fiscal Year</u>	<u>Total Compensation Payments</u>	<u>Compensation Paid but not Reported Upon</u>	<u>Percentage Not Reported Upon</u>
(thousands of dollars)			
1978-79	\$ 628,000	\$ 114,000	18%
1979-80	<u>1,633,000</u>	<u>1,633,000</u>	100%
	<u>\$ 2,261,000</u>	<u>\$ 1,747,000</u>	

In our 1979 Report, total compensation payments for 1978-79 were shown net of non-tax revenue of \$49 million. In the current Report, these amounts are shown at their gross value.

In our opinion, subject to completion of the audit of the compensation payments referred to in the preceding paragraphs disclosing no significant discrepancies, and subject to the matters referred to above in connection with:

- special freight compensation for cargoes lightened in the Caribbean en route to Canada and
- method of deducting exports,

payments in the fiscal year ended 31 March 1980 have been properly processed and are in conformity with applicable legislation, regulations and guidelines.

**12.14      Matters previously reported on and now resolved.** In the 1979 Report, matters were raised which required action or clarification. The following is the status of these matters:

- *Control of oil exchanges.* In 1979-80, the National Energy Board approved a number of exchanges of western Canadian crude oil for crude oil imported into eastern Canada. The effect of these exchanges is that crude oil may be exported to the United States of America from western Canada without payment of the applicable export charge if a similar quantity of crude oil is imported into eastern Canada without the receipt of import compensation.

Procedures have been developed by the National Energy Board to ensure that the required amount of replacement crude oil is imported into eastern Canada. Adequate information is made available to the Petroleum Compensation Board's staff to ensure that oil import compensation is not paid on these replacement crude imports.

- *Audit of price restraint.* Since the petroleum products industry is no longer under mandatory Federal Government price controls, we have discontinued the audit of sales data. However, the Petroleum Compensation Board continues to monitor the price behaviour of oil company products as provided for in the regulations.

We shall continue to report on this program to the Governor in Council.



## **ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL**



# **ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL**

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## ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL

### Introduction

**13.1** The responsibilities of the Auditor General are set out in the Auditor General Act of 1977, reproduced as Appendix A to this Report. Four sections in the Act detail the Auditor General's responsibility to report to Parliament.

- Section 6 requires the Auditor General to express an opinion on the financial statements of the Government of Canada.

- Section 7 requires the Auditor General to report annually to the House of Commons anything that he considers to be of significance and of a nature that should be brought to its attention, including cases where public funds have been expended without due regard to economy or efficiency, or where procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

- Section 8 enables the Auditor General to make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until his annual Report is tabled.

- Section 11 permits the Auditor General to inquire into and report on matters in response to requests from the Governor in Council. Under this section, the Audit Office continued its examination of the Oil Import Compensation Program, referred to in Chapter 12 of this Report.

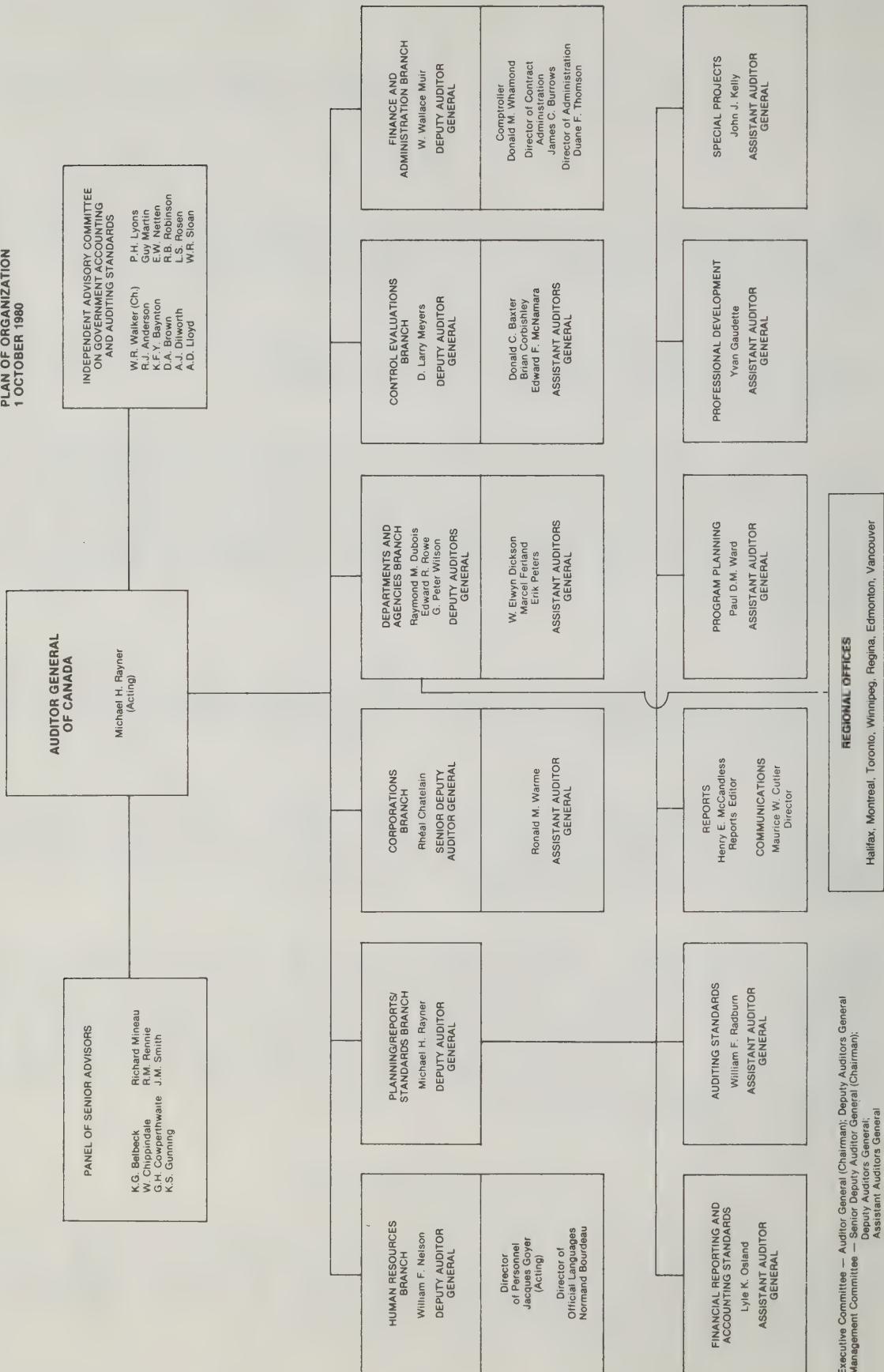
**13.2** The Auditor General is also required to express an opinion on the accounts of 34 agency and proprietary Crown corporations, in accordance with section 77 of the Financial Administration Act, and 52 departmental Crown corporations and other entities, including the accounts of the Governments of the Yukon Territory and Northwest Territories and their agencies. As well, he expresses an opinion on the accounts of the United Nations and several of its agencies and affiliated organizations.

### Organization of the Office

**13.3** On 12 September 1980, James J. Macdonell retired as Auditor General of Canada. The Governor in Council appointed Michael H. Rayner, Deputy Auditor General, Planning/Reports/Standards Branch, to perform temporarily the duties of Auditor General upon Mr. Macdonell's retirement. The plan of organization at 1 October 1980 is shown in Exhibit 13.1.

# The Audit Office

Exhibit 13.1  
**OFFICE OF THE AUDITOR GENERAL**  
**PLAN OF ORGANIZATION**  
**1 OCTOBER 1980**



Executive Committee — Auditor General (Chairman); Deputy Auditors General  
 Management Committee — Senior Deputy Auditor General (Chairman),  
 Deputy Auditors General,  
 Assistant Auditors General

## **Executive and Management Committees**

**13.4** The Executive Committee, comprising the Deputy Auditors General and chaired by the Auditor General, is responsible for the overall direction of the Office. The Management Committee, chaired by the Senior Deputy Auditor General, is made up of the Deputy Auditors General and the Assistant Auditors General. This Committee co-ordinates professional matters and audit programs and assists the decision making of the Auditor General and the Executive Committee.

## **Branches and Groups**

**13.5** The *Departments and Agencies Branch* employs approximately 250 professional staff who plan, conduct and report the comprehensive and financial audits of departments and agencies, and Crown corporations other than the "laboratory group" of corporations noted in paragraph 13.6. The Branch is also responsible for the follow-up of audit recommendations made in previous Reports. Regional offices, located in Halifax, Montreal, Toronto, Winnipeg, Regina, Edmonton and Vancouver, report to the Departments and Agencies Branch. These offices undertake audits of government organizations with headquarters in regional centres or which administer major portions of their programs in the regions.

**13.6** The *Corporations Branch* is responsible for the development of comprehensive audit methodology for Crown corporations. The Office is currently working with a "laboratory group" of Crown corporations, and the experience acquired with this group will assist in developing the Office's approach to comprehensive auditing of Crown corporations generally. The corporations included in the laboratory group are:

- Atomic Energy of Canada Limited
- Canada Mortgage and Housing Corporation
- Canadian Broadcasting Corporation
- Eldorado Nuclear Limited
- Export Development Corporation
- Federal Business Development Bank
- Teleglobe Canada

Two of these corporations are audited by public accounting firms, with whom we are co-operating on methodology development.

**13.7** The Corporations Branch has primary responsibility for co-ordinating the Office's relationship with the external auditors of those Crown corporations for which the Auditor General is not the designated auditor. As auditor of the Accounts of Canada, the Auditor General relies on the work of other auditors.

**13.8** The *Control Evaluations Branch* provides professional support to comprehensive audit teams in the areas of financial, management and EDP controls. The Branch also plans and conducts government-wide and special studies in these areas and plays a leading role in comprehensive auditing methodology development.

**13.9** The Branch consists of three groups. One group is responsible for methodology development, effectiveness evaluations audit and financial management and control reviews. This group is responsible for the development of Audit Guides and provides expertise on questions related to the audit entity's financial management and its systems for measuring and reporting program effectiveness. A second group, the government-wide studies and comprehensive audit support group, conducts reviews or audits of financial and management controls applicable across departments and agencies of government. This group also supplies professional support to audit teams in these areas.

**13.10** The third group, Computer Audit Services, provides expertise and methodology in the areas of value-for-money assessments of EDP expenditures, financial control assessments in computerized systems and the facility for analysing information held on computer files through the use of specially created audit software. In addition, sampling specialists assist in the definition of populations and the design and analysis of sampling plans.

**13.11** The *Planning/Reports/Standards Branch* is concerned with comprehensive auditing standards and a number of professional advisory activities which support the quality of audit operations. A major responsibility is co-ordinating the preparation of the annual Report to the House of Commons and maintaining liaison with the Standing Committee on Public Accounts, with Members of Parliament, with central agencies of government and with the Office's legal advisers.

The Branch consists of the following groups:

- Financial Reporting and Accounting Standards;
- Auditing Standards;
- Reports;
- Program Planning; and
- Professional Development.

In addition, one of the Branch's Assistant Auditors General has been assigned responsibility for leading certain special projects initiated during the year.

**13.12** The Financial Reporting and Accounting Standards group co-ordinates the examination of the accounts and financial statements of the Government of Canada and recommends to the Auditor General the audit opinion on the main financial statements included in the Public Accounts. It advises the Office on principles and practices of accounting applicable to the accounts and financial statements of Canada, and on changes in the principles and practices that are proposed from time to time by government and by the Canadian Institute of Chartered Accountants. It provides review and advice to audit teams concerning financial disclosure and accounting principles for Crown corporations and government agencies. The group is also responsible for carrying out audits of certain central agencies of government.

**13.13** The Auditing Standards group is responsible for developing and maintaining comprehensive auditing standards and procedures, including post-audit quality review. It also conducts research in auditing, provides a consultative advisory service for staff, develops and maintains the Office's Comprehensive Auditing Manual, and reviews and publishes Audit Guides.

**13.14** The Reports group is responsible for central review and edit of the annual Report to the House of Commons and for its production. In this role, Central Review/Edit provides reporting guidelines to the audit teams.

**13.15** The Program Planning group is responsible for co-ordinating the development of the Office's short, medium and long-term audit plans and identifying the resources required to achieve these plans. It assists the Executive Committee with the assignment of audit personnel within the Office. The group also maintains liaison with committees of Parliament, particularly the Public Accounts Committee.

**13.16** The Professional Development group is responsible for training and development courses for Audit Office staff including comprehensive auditing courses. One of the responsibilities of this group is to provide students-in-accounts with training opportunities to meet the specific requirements of recognized professional accounting accreditation bodies.

**13.17** Special projects initiated by the Office during the last year include joint sponsorship with the Canadian Comprehensive Auditing Foundation of a major research study and the development of closer liaison between the Office and the Canadian Institute of Chartered Accountants. An Assistant Auditor General has been assigned responsibility for these projects. The research study which he leads is examining the roles of federal and provincial Public Accounts Committees and of the legislative auditors who serve them. It is also studying the

relationships between Public Accounts Committees and legislative auditors and the impact of comprehensive auditing on these roles and relationships. The same Assistant Auditor General is responsible for this Office's response to the increasing interest and activity of the Canadian Institute of Chartered Accountants in public sector accounting and auditing matters. He is establishing and maintaining close liaison with the Institute's senior officers and with its various committees and task forces, and is the first representative of the Office to serve on the Institute's authoritative Audit Standards Committee.

**13.18** The *Finance and Administration Branch* administers the Office's financial and management control and information systems. It also negotiates all contracts for audit and consulting professionals and monitors their engagement. Lastly, it provides general administrative support services in the Office including library, mail and messenger, materiel, records, word processing and security services.

**13.19** The *Human Resources Branch* has responsibility for personnel management including recruitment, compensation planning and services, staff relations, implementation of bilingualism policies and manpower planning. It also assists with the Office's government-wide reviews in the area of payroll costs management.

#### **Advisors to the Auditor General**

**13.20** The Auditor General has two main groups of advisors. Each group is made up of leading members of the major accounting and management consulting professions. The *Panel of Senior Advisors* counsels the Auditor General on the application of comprehensive auditing, with particular emphasis on public sector corporate entities. Members of the Panel are:

- Kenneth G. Belbeck, C.M.C.,  
President,  
Thorne Stevenson & Kellogg
- Warren Chippindale, C.A.,  
Chairman, Executive Committee and  
Managing Partner,  
Coopers & Lybrand
- Gordon H. Cowperthwaite, F.C.A.,  
Chairman, Executive Committee,  
Peat, Marwick, Mitchell & Co., and  
Peat, Marwick and Partners
- Kenneth S. Gunning, F.C.A.,  
Executive Partner,  
Thorne Riddell

- Richard Mineau, C.M.C.,  
Managing Partner,  
Price Waterhouse Associates
- Robert M. Rennie, C.A.,  
Chairman and Chief Executive Officer,  
Touche Ross & Co.
- Jack M. Smith, C.M.C.,  
Chairman and Executive Partner,  
Woods Gordon

**13.21** The *Independent Advisory Committee on Government Accounting and Auditing Standards* is made up of senior representatives of accounting firms, management consulting firms, and the academic community. The Committee provides advice to the Auditor General on accounting and reporting matters and reviews major documents such as the opinion and observations on the annual financial statements of the Government, and the Office's *Comprehensive Auditing Manual* and *Audit Guides*. Members are:

- W. Ross Walker, F.C.A.,  
Peat, Marwick, Mitchell & Co.
- Rodney J. Anderson, F.C.A.,  
Clarkson, Gordon
- Kenneth F.Y. Baynton, C.A.,  
Thorne Riddell
- Donald A. Brown, C.A.,  
Coopers & Lybrand
- Alan J. Dilworth, F.C.A.,  
Touche Ross & Co.
- Alwyn D. Lloyd, C.A.,  
MacGillivray & Co.
- P. Howard Lyons, F.C.A.,  
Deloitte Haskins & Sells
- Guy Martin, C.A.,  
Raymond, Chabot, Martin, Paré & Associés
- Edward W. Netten, C.A.,  
Price Waterhouse Associates
- Ronald B. Robinson, C.M.C.,  
Thorne Stevenson & Kellogg

- Professor L.S. Rosen, F.C.A.,  
York University
- William R. Sloan, F.C.A.,  
Arthur Andersen & Co.

### **Assistance to the Standing Committee on Public Accounts**

**13.22** Designated senior members of the Office attend all meetings of the Standing Committee on Public Accounts to provide explanations concerning matters raised in the Auditor General's annual Reports to the House of Commons. The Office also assists the Sub-Committee on Agenda and Procedure in planning the Committee's schedule for its review of the annual Reports.

**13.23** During the last year, the Committee continued its consideration of the 1978 annual Report and considered a number of chapters in the 1979 Report. Recommendations of the Committee relating to our 1977-78 Study of Procedures in Cost Effectiveness are included in the Committee's First Report, dated 18 July 1980, reproduced in Appendix C.

### **International Audits**

**13.24** Canada served on the United Nations Board of Auditors from June 1945 to June 1956 and again from July 1968 to June 1980. At United Nations Headquarters in New York in June 1980, the Auditor General of Canada, as Chairman of the Board of Auditors, approved reports for the biennium ended 31 December 1979, for the United Nations, the United Nations University, the United Nations Environment Program, the United Nations Habitat and Human Settlements Foundation and the International Trade Centre. Annual reports for the year ended 31 December 1979 were also presented for the United Nations Development Program, the United Nations Fund for Population Activities, the United Nations Relief and Works Agency, the United Nations Children's Fund, the United Nations High Commissioner for Refugees, the United Nations Institute for Training and Research and the Staff Pension Fund. A special report for the General Assembly on the United Nations International School was also approved.

**13.25** Deputy Auditor General G. Peter Wilson served as Director General of External Audit for the United Nations Board of Auditors and Chairman of its Audit Operations Committee from 1 April 1978 to 30 June 1980. Bonnie P. Miller, a Principal in the Office, served as Director of External Audit for Canada during that same period. In the last year, 40 auditors from Canada worked for varying periods on United Nations audits involving assignments in New York, Geneva, Vienna, Santiago, Jerusalem, Naquora, Ankara, Mexico City, Lima, Tokyo, and Port of Spain.

**13.26** One of the principal contributions of the Office was an Audit Manual for the United Nations Board of Auditors, completed in June 1980. Based largely on the audit practices and procedures introduced by Canada to the Board of Auditors in the last five years, the Manual will serve as a standard for the uniform systems-based audit approach to be followed by the Board of Auditors in the future. The United Nations is also making this Manual available to all Member States who request it.

**13.27** The Auditor General of Canada is the external auditor for the International Civil Aviation Organisation (ICAO), a Specialized Agency of the United Nations, with headquarters in Montreal. The annual report for the year ended 31 December 1979, which was submitted to the Assembly of ICAO in May 1980, included a follow-up on the financial management and control study reported in the previous year. The audit of ICAO is carried out by the staff of our Montreal Regional Office, which is also responsible for the audit of ICAO's Joint Financing Agreements with Denmark and Iceland.

**13.28** Although Canada ceased to be a member of the United Nations Board of Auditors in June 1980, the Auditor General continues, by virtue of his ICAO responsibilities, to be a member of the Panel of External Auditors of the United Nations, the Specialized Agencies, and the International Atomic Energy Agency. The Panel's twenty-second Regular Session was held in Vienna in October 1980. One of the major items for review was the Canadian proposal, referred to the Panel by the General Assembly, for restructuring the United Nations Board of Auditors.

**13.29** Senior members of the Office participated in a number of other international activities. The Auditor General led the Canadian delegation to the Tenth Congress of the International Organization of Supreme Audit Institutions in Nairobi, Kenya, in June 1980.

### **Joint Initiatives with Other Organizations**

#### **The Canadian Comprehensive Auditing Foundation**

**13.30** In February 1980, the Canadian Comprehensive Auditing Foundation, a national non-profit organization, was established to encourage the development of methodology and professional development programs in comprehensive auditing. The founding Board of Governors included the Auditor General of Canada and several of his provincial counterparts, the President of the Canadian Institute of Chartered Accountants, the Comptroller General of Canada and several other government officials, partners of public accounting and management consulting firms, internal auditors and members of the academic community.

**13.31** The Foundation is a working association of public and private sector auditors, accountants and management consultants, internal auditors in the public

and private sectors, and academics. It operates as a co-operative agency for audit research and as a forum for the exchange and dissemination of information among members. One of its most important responsibilities is the establishment of professional development and training programs for auditors, management consultants and others. This includes an international program designed to help developing countries increase their auditing capabilities through professional development opportunities for their auditors. The Canadian International Development Agency has undertaken to lend financial support to this program for the next five years.

**13.32** Membership in the Foundation includes institutions and professional organizations such as legislative audit offices, government and private sector internal audit groups, public accounting and management consulting firms, individuals and corporations. The Foundation is financed by contributions from the federal and provincial legislative audit offices and by fees paid by the various sustaining, subscribing and individual members.

#### **Co-ordinating Task Force on the Audit of Federal Income Tax Records**

**13.33** Federal-provincial agreements define the extent to which the provincial legislative auditors are permitted to audit the taxes collected and the various tax credits distributed on behalf of their provincial governments.

**13.34** Part 3 of the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, S.C. 1976-77, c. 10, states that:

... the Minister (of Finance), with the approval of the Governor in Council, may on behalf of the Government of Canada enter into a tax collection agreement with the government of the province pursuant to which the Government of Canada will collect the provincial taxes on behalf of the province ...

Such agreements exist with most of the provincial governments.

**13.35** At the Annual Meeting of the Canadian Conference of Legislative Auditors held in St. John's, Newfoundland in August 1979, the progress of the task force which had been established early in 1979 was presented and reviewed. The task force, consisting of representatives from two provinces and members of the Office of the Auditor General of Canada, had been established to address concerns expressed by provincial legislative auditors regarding the federal role in collecting provincial taxes.

**13.36** Two major concerns expressed were: first, the provincial legislative auditors desired additional audit assurance to support their opinions on their provincial income tax revenue and credits because the tax collection agreements, for all intents and purposes, prohibit them from auditing most aspects of a

taxpayer's return. Second, if each provincial legislative auditor were to audit to the extent permitted under the provisions of the agreements, there would be considerable duplication of effort and unnecessary disruption for officials and staff of the Department of National Revenue - Taxation, and the Department of Finance.

**13.37** The task force's work consists of reviewing this Office's audit programs, findings and reports relating to assessing, proper allocation and accounting for personal and corporate income tax and various provincial tax credits and reporting whether the concerns expressed by provincial legislative auditors have been adequately addressed in the audit work. The work of this task force will provide the provincial legislative auditors with additional audit assurance they can use in formulating their opinions on their provincial income tax revenue and credits while at the same time remaining within the strict provisions of the federal-provincial tax collection agreements. The task force provides an example of co-operation to achieve value for money in Canadian legislative auditing.

### **Legislative Auditors' Annual Meeting**

**13.38** The Canadian Conference of Legislative Auditors held its eighth annual meeting in Winnipeg, Manitoba, 11-13 August 1980. At the same time, the Public Accounts Committee chairmen held their second annual meeting, under the chairmanship of Patrick Reid, MPP, Chairman of the Standing Committee on Public Accounts, Legislative Assembly of Ontario. They participated in a joint session with the legislative auditors on the final day.

**13.39** The agenda included such subjects as Professional Development, Financial Reporting Practices in Government, Audit Committees in Government, Internal Auditing, Audit of Grants and Transfer Payments, and Public Impressions and Expectations of the Legislative Auditor. Guest speakers included the Honourable Donald W. Craik, Minister of Finance, Province of Manitoba; W.A. Wilson, author and journalist; N. Glenn Ross, Partner, Coopers & Lybrand and Chairman of the Canadian Institute of Chartered Accountants' Study Group on Financial Reporting by Governments; E. Roy Salmon, Assistant Comptroller General of Canada; Raymond Lavoie, Vice-Chairman of the Board of the Export Development Corporation and Audit Committee Chairman; and W.A. Bradshaw, Partner, Touche Ross & Co.

### **Resources of the Office**

#### **Human Resources**

**13.40** At 1 August 1980, 213 members of the Office were qualified for membership in recognized accounting associations. Thirty-five held other professional qualifications, and 79 students-in-accounts were enrolled in programs leading to accounting designations.

**13.41** Comprehensive auditing creates the need for professionals in such fields as engineering, systems development, electronic data processing, personnel management and the administrative sciences. Recruitment is therefore directed toward achieving the optimum balance of professional backgrounds.

**13.42** To provide a variety of specialized knowledge and experience not required on a permanent basis, the Office continues to make extensive use of professional resources available from the private sector. The Audit Office has participated in the Public Service Commission's Executive Interchange Program since 1975. In this period, 145 partners and managers from major public accounting and management consulting firms have joined the Office for varying periods of time. This has not only supplemented the work of our staff, but has also provided an environment for mutual professional enrichment. In March 1979, the Auditor General invited a number of public accounting and management consulting firms to join with the Office in a program of developing comprehensive auditing methodology for departments, agencies and Crown corporations. By early September 1979, 42 partners and managers from 18 firms had joined the Program on Executive Interchange agreements. At 1 August 1980, there were 31 professionals associated with the Office under this Program. At the same date, there were also 166 persons engaged by the Office on professional service contracts.

**13.43** The following table presents a profile of the full-time staff of the Office. It excludes persons serving on Executive Interchange agreements or those on professional service contracts.

	<u>1 August 1980</u>	<u>31 March 1980</u>	<u>31 March 1979</u>
Principals, including Executive and Management Committees	47	40	26
Directors and Managers	74	79	77
Supervisors and Auditors	124	125	145
Other audit staff	81	84	90
Administrative support staff	152	147	150
	<u>478</u>	<u>475</u>	<u>488</u>
National Capital Region	389	382	386
Other Regions	89	93	102
	<u>478</u>	<u>475</u>	<u>488</u>

**13.44** Members of the Audit Office who retired before 1 August 1980 were: Donald Wilson, C.A., an Audit Manager with 19 years in the Public Service; Allan Macdonald, B. Comm., an Audit Supervisor with 33 years in the Public Service; Theresa Cusson, B.A., an Auditor with 32 years in the Public Service; and Raymond Vallières, Finance Officer with 39 years in the Public Service.

**OFFICE OF THE AUDITOR GENERAL OF CANADA**  
**ESTIMATES AND EXPENDITURES**

Estimates and Expenditures by Activity					
	1980-81	1979-80		1978-79	
	<u>Estimates</u>	<u>Estimates</u>	<u>Expenditures</u>	<u>Estimates</u>	<u>Expenditures</u>
(thousands of dollars)					
Government Audits	24,539	22,283	20,830	21,947	20,435
Other Audits	251	542	515	619	489
Administration	<u>4,015</u>	<u>2,995</u>	<u>3,910</u>	<u>2,936</u>	<u>2,838</u>
<b>TOTAL</b>	<b><u>28,805</u></b>	<b><u>25,820</u></b>	<b><u>25,255</u></b>	<b><u>25,502</u></b>	<b><u>23,762</u></b>
Estimates and Expenditures by Object					
	1980-81	1979-80		1978-79	
	<u>Estimates</u>	<u>Estimates</u>	<u>Expenditures</u>	<u>Estimates</u>	<u>Expenditures</u>
(thousands of dollars)					
Salaries and Wages	15,438	13,622	12,565	11,806	11,537
Employee Benefit Plans	2,012	1,541	1,526	1,476	1,466
Transportation and Communications	1,396	1,235	1,044	1,104	1,066
Information	176	87	117	121	122
Professional and Special Services including Executive Interchange	8,770	8,657	8,813	10,303	8,640
Rentals	335	149	217	111	209
Purchased Repair and Upkeep	77	56	28	19	28
Utilities, Materials and Supplies	493	314	425	455	386
Construction and Acquisition of Machinery and Equipment	102	141	366	92	304
Grants and Contributions	-	-	150	-	-
All Other Expenditures	<u>6</u>	<u>18</u>	<u>4</u>	<u>15</u>	<u>4</u>
<b>TOTAL</b>	<b><u>28,805</u></b>	<b><u>25,820</u></b>	<b><u>25,255</u></b>	<b><u>25,502</u></b>	<b><u>23,762</u></b>

## **Official Languages**

**13.45** Over the last year, the Office continued the development of its Official Languages Program. Particular attention was given to the expansion of in-house language development programs. In addition, considerable progress was made in supplying improved services in the field of written communications in French, including consultation in writing and editing.

## **Estimates and Expenditures**

**13.46** Exhibit 13.2 presents the Estimates and Expenditures of the Office, by Activity and by Object.

## **APPENDICES**



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## **APPENDIX A**

### **AUDITOR GENERAL ACT**



# 25-26 ELIZABETH II

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## CHAPTER 34

### An Act respecting the office of the Auditor General of Canada and matters related or incidental thereto

*[Assented to 14th July, 1977]*

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

#### PART I

##### SHORT TITLE

**1.** This Part may be cited as the *Auditor General Act*.

##### INTERPRETATION

**2.** In this Act,

“Auditor General” means the Auditor General of Canada appointed pursuant to subsection 3(1);

“Crown corporation” has the meaning assigned to that expression by subsection 66(1) of the *Financial Administration Act*;

“department” has the meaning assigned to that term by section 2 of the *Financial Administration Act*;

“registrar” means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act*.

##### AUDITOR GENERAL OF CANADA

**3.** (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

(2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Re-appointment

(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General.

Vacancy

**4.** (1) The Auditor General shall be paid a salary equal to the salary of the Chief Justice of the Federal Court of Canada, including any additional salary authorized by section 20 of the *Judges Act*.

Salary

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him.

Pension benefits

##### DUTIES

**5.** The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund

Examination

and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act.

**6.** The Auditor General shall examine the several financial statements required by section 55 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.

**7. (1)** The Auditor General shall report annually to the House of Commons

- (a) on the work of his office; and
- (b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

(a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

(b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;

(c) money has been expended other than for purposes for which it was appropriated by Parliament;

(d) money has been expended without due regard to economy or efficiency; or

(e) satisfactory procedures have not been established to measure and report the

effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

**(3)** Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before the 31st day of December in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receipt thereof by him or, if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

**8. (1)** The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report.

**(2)** Each special report of the Auditor General to the House of Commons made under subsection (1) or 20(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

**9. The Auditor General shall**

(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require; and

(b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act*;

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities.

**10.** Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board.

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Speaker and  
tabling in the  
House of  
Commons

Special report

Submission o  
report to  
Speaker and  
tabling in the  
House of  
Commons

Idem

Improper  
retention of  
public money

Reliance on audit reports of Crown corporations

**11.** The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

**12.** The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board.

#### ACCESS TO INFORMATION

**13.** (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*.

**14.** (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada.

#### STAFF OF THE AUDITOR GENERAL

**15.** (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the *Public Service Employment Act*.

(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in

*Appropriation Acts*, contract for professional services.

(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the *Public Service Employment Act*.

Auditor General may request information

Direction of the Governor in Council

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other than the powers, duties and functions of the Commission in relation to appeals under sections 21 and 31 of that Act and inquiries under section 32 of that Act.

(4) The Auditor General may suspend from the performance of his duty any person employed in his office.

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 5(1)(e) and section 7 of that Act.

17. Any collective agreement affecting persons employed in the office of the Auditor General entered into before the coming into force of this Act remains in force and binds the Auditor General as employer of such persons until the expiry of that agreement.

18. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office.

19. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 55 of the *Financial Administration Act* and his reports to the House of Commons under this Act and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General.

## ESTIMATES

20. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office.

21. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General.

## AUDIT OF THE OFFICE OF THE AUDITOR GENERAL

Estimates

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of the Audit  
General

22. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting.

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## CONSEQUENTIAL AND RELATED AMENDMENTS

**23.** Part VII of the *Financial Administration Act* is repealed.

**24.** (1) Part I of Schedule I to the *Public Service Staff Relations Act* is amended by deleting therefrom the words "Office of the Auditor General of Canada".

(2) Part II of Schedule I to the *Public Service Staff Relations Act* is amended by adding thereto the words "Office of the Auditor General of Canada".

**25.** Section 16 of the *Established Programs (Interim Arrangements) Act* is repealed and the following substituted therefor:

"**16.** Nothing in this Act shall be construed to restrict the powers of the Auditor General of Canada under the *Auditor General Act*."

**26.** Section 27 of the French version of the *Pilotage Act* is repealed and the following substituted therefor:

"**27.** Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de chaque Administration et en fait rapport au Ministre."

**27.** Subsection 23(5) of the *Northwest Territories Act* is repealed and the following substituted therefor:

## PART II

"**(5)** The Auditor General has, in connection with his examination of the accounts of the Territories, all the powers that he has under the *Auditor General Act* in connection with the examination of the accounts of Canada."

**28.** Subsection 26(5) of the *Yukon Act* is repealed and the following substituted therefor:

"**(5)** The Auditor General has, in connection with his examination of the accounts of the Territory, all the powers that he has under the *Auditor General Act* in connection with the examination of the accounts of Canada."

**29.** Section 15 of the French version of the *Unemployment Insurance Act, 1971* is repealed and the following substituted therefor:

"**15.** Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de la Commission et en fait rapport au Ministre."

**30.** Whenever, in the French version, the expression "auditeur général" appears in any provision of an Act listed in the schedule to this Act, there shall in every case, unless the context otherwise requires, be substituted the expression "vérificateur général".

Powers of  
Auditor  
General

R.S. c. Y-2

Powers of  
Auditor  
General

1970-71-72,  
c. 48

Vérification

Amendments to  
French version

Coming into  
force

**31.** This Act shall come into force on a day to be fixed by proclamation.

*(The Act came into force 1 August 1977)*



**APPENDIX B**

**FINANCIAL ADMINISTRATION ACT -**

**EXTRACTS FROM PART VIII**



## FINANCIAL ADMINISTRATION ACT

R.S., c. F-10

### Extracts from Part VIII

#### CROWN CORPORATIONS

cess to books,

**76.** The auditor is entitled to have access at all convenient times to all records, documents, books, accounts and vouchers of a corporation, and is entitled to require from the directors and officers of the corporation such information and explanations as he deems necessary. R.S., c. 116, s. 86.

ditor's report

**77. (1)** The auditor shall report annually to the appropriate Minister the result of his examination of the accounts and financial statements of a corporation, and the report shall state whether in his opinion

Other reports

(a) proper books of account have been kept by the corporation;

Annual report

(b) the financial statements of the corporation

Audit

(i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,  
(ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and

Report through Minister

(iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and

(c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation;

and the auditor shall call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

**(2)** The auditor shall from time to time make to the corporation or to the appropriate Minister such other reports as he may deem necessary or as the appropriate Minister may require.

**(3)** The annual report of the auditor shall be included in the annual report of the corporation.

**(4)** Notwithstanding section 68, this section operates in lieu of section 132 of the *Canada Corporations Act* or sections 159 to 161 of the *Canada Business Corporations Act*, as the case may be.

**78.** In any case where the auditor is of the opinion that any matter in respect of a corporation should be brought to the attention of the Governor in Council, the Treasury Board or the Minister of Finance, such report shall be made forthwith through the appropriate Minister. R.S., c. 116, s. 88.



## **APPENDIX C**

**REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS  
TO THE HOUSE OF COMMONS, 18 JULY 1980**



# FIRST REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, 18 JULY 1980

## REPORT TO THE HOUSE

Friday, July 18, 1980

The Standing Committee on Public Accounts has the honour to present its

### FIRST REPORT (STUDY OF PROCEDURES IN COST EFFECTIVENESS)

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General of Canada to the House of Commons for the fiscal year ended March 31, 1978 and, in particular, Chapters 2, 3 and 5 concerning the Study of Procedures in Cost Effectiveness.

SECTION	CONTENTS	PARAGRAPH NUMBER
I	Introduction .....	3
II	Recommendations .....	4-7
III	Background .....	8-9
IV	Planning Capital Acquisitions Analysis of Testimony .....	10-17
V	Evaluating Effectiveness Analysis of Testimony .....	18-27

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

## I—INTRODUCTION

3. Your Committee has heard testimony and has received submissions on the "Study of Procedures in Cost Effectiveness" (SPICE)—the first report of the Auditor General in response to his new value-for-money mandate contained in the Auditor General Act. This work of the Auditor General and the deliberations of your Committee have highlighted new issues of management control and of the information potentially available to the House of Commons. Accordingly, this Report of your Committee presents recommendations which address both the detailed results of our hearings and the broader implications of our findings for strengthening the accountability process of the Government to Parliament.

## II—RECOMMENDATIONS

4. With respect to the implications of the Study of Procedures in Cost Effectiveness, and to improve government accountability to Parliament, your Committee recommends that:

- (a) a Special Committee of the House of Commons be established to review those on-going projects which have projected cost over-runs (Paragraph 16);
- (b) the Auditor General use more often his power to make special reports so that your Committee is able more often to examine current issues (Paragraph 17);
- (c) all effectiveness evaluations, including methodology and findings, be tabled in the House of Commons within sixty days of their completion and that the Standing Orders of the House of Commons be amended to refer the evaluation reports automatically and permanently to the appropriate standing committees (Paragraph 24); and
- (d) annual reports of departments contain non-technical summaries of effectiveness evaluations to highlight the impact of government programs (Paragraph 27).

5. With respect to capital projects, your Committee recommends that:

- (a) before final approval is given to capital acquisition projects in excess of \$10 million, deputy heads of departments and heads of agencies be required to certify in writing to the Treasury Board that all established procedures set out by the Treasury Board have been followed, and in particular that the proposal is supported by accurate and complete documentation;
- (b) greater effort be made to find and retain competent project managers and that the individual performance of project managers be recognized in their compensation and their career progression (Paragraph 14);
- (c) the Auditor General have access to all relevant information, other than political input, furnished to a Minister and to Cabinet (Paragraph 15);
- (d) guidelines be established to ensure that decisions taken by departmental officials on the basis of political authority be supported by written instructions; and

(e) cost estimates for capital projects and analyses be expressed in constant and current dollars.

6. With respect to program evaluation, your Committee recommends that:

(a) the Government give high priority to evaluation work; that the positions currently authorized for "Planning and Evaluation" functions be devoted more to program evaluation; and that over a period of five years equal emphasis and effort be given to effectiveness evaluation and planning (Paragraph 23);

(b) technical reports of effectiveness evaluations be available for critical review and comment and in particular, your Committee encourages review in learned journals in order to focus the informed commentary of the academic community on the technology of evaluation research (Paragraph 25); and

(c) recipients of program funds be required to execute an agreement stating that they will comply with reasonable requests for information for purposes of evaluation research (Paragraph 26).

7. Your Committee has presented a series of recommendations that involve the work of other committees of the House and has called for specific responses from the Government. Accordingly, your Committee respectfully requests that the Government respond to the recommendations in this Report by March 31, 1981 in order that Parliament be informed of developments in the accountability process of the Government to Parliament.

### III—BACKGROUND

8. Canadian Auditors General have long been concerned with value for money. A more comprehensive, formal recognition of the need for value-for-money auditing in Canada resulted from the work of the Independent Review Committee on the Office of the Auditor General of Canada. Recommendations of this Committee led to the Auditor General Act, S.C. 1976-77, c.34, which was proclaimed on August 1, 1977. The provisions of the new Act establish a value-for-money mandate in Section 7, which is in addition to the reporting requirements of the Financial Administration Act. Sections 7 (2) (d) and (e) of the Auditor General Act require the Auditor General to call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that:

"money has been expended without due regard to economy or efficiency; or

satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented."

9. To give effect to the expanded mandate, the Office of the Auditor General instituted a special project, the "Study of Procedures in Cost Effectiveness" (SPICE). Its main objectives were:

(a) to compile information on the "state of the art" of management control systems in the public sector, in terms of economy, efficiency and effectiveness; and

(b) to assess and report on existing procedures for planning, measuring and controlling activities in Canada's public service (in the interests of economy, efficiency and effectiveness).

### IV—PLANNING CAPITAL ACQUISITIONS— ANALYSIS OF TESTIMONY

10. As one aspect of its investigations, the SPICE project conducted a number of examinations of planning as related to capital acquisitions. Thirteen capital projects whose total value amounted to \$700 million were audited. Expenditures on these projects during the 1977-78 fiscal year were \$161 million or 9% of the amount of \$1,838 million approved for capital acquisitions in the Main Estimates for that year.

11. The Auditor General has tried to determine what constitutes due regard to economy. With this objective in mind, he has established a set of audit criteria to guide his investigation of capital acquisition projects. Briefly they are:

(a) responsibility and accountability should be clearly defined and communicated;

(b) requests for funds should be supported by accurate and complete documentation;

(c) final approval should be based on full information;

(d) project implementation should be properly controlled and

(e) completed projects should be reviewed.

12. Your Committee endorses the audit criteria drafted by the Auditor General. It believes that the criteria represent minimum acceptable standards by which to judge management performance on capital projects. Furthermore, in testimony and written evidence before your Committee, the Treasury Board Secretariat and departments whose capital projects were examined supported the audit criteria.

13. Testimony and evidence submitted to your Committee show that most of the projects examined by the Auditor General failed to satisfy these criteria and exhibited substantial over-runs compared to original estimates. Of the three case histories examined by your Committee—Indian schools, "F-Class" Icebreakers and the Calgary Airport—none met the standards embodied in the audit criteria.

14. In your Committee's opinion, the projects reviewed by the Auditor General exhibited substantial weakness in management control. Current testimony, however, indicates a genuine concern for improved management processes. Departments have submitted extensive documentation describing their efforts to strengthen management controls. The Treasury Board Secretariat has issued five major documents on project control:

(a) Circular No. 1978-46—Approval of Capital Projects; November 6, 1978;

(b) Chapter 140—Administrative Policy Manual—Management of Major Projects, June 1979;

(c) Chapter 145—Administrative Policy Manual—Management of Projects—Aide-mémoire, June 1979;

(d) Circular No. 1979-20—Directives on Cost Control, July 27, 1979; and

(e) Circular No. 1979-31—Major Crown Projects Leaders, September 21, 1979.

Your Committee cannot yet judge whether performance has actually improved. This is a question which should be examined in future reports of the Auditor General.

15. Testimony revealed that a written record of information supporting decisions on some of the cases examined by your Committee was not available. Your Committee found that, in certain cases where specific projects involved Treasury Board scrutiny, questions raised by the Treasury Board and subsequent departmental responses to them were not available on the public record. Major projects were undertaken without complete information being available to those responsible. These circumstances could have been, in some cases, the result of a political decision imposed on the department in question. In the view of your Committee, all information in support of a decision, other than political input, should be available to the Auditor General. This applies to all stages of a decision-making process, including reports to senior officials, to a Minister and to Cabinet. However, your Committee considers that it is outside the mandate of the Auditor General to express an opinion on the decisions themselves.

16. Each year, capital projects account for a significant expenditure of public funds. Current commitments to all capital projects under way total well in excess of \$10,000 million. Evidence and testimony have indicated that current projects suffer from significant weaknesses in management control and may be subject to substantial over-runs. Detailed investigation of projects that have exceeded their budgetary allowances is beyond the capacity of your Committee, given the subject matter already referred to it. To respond to this issue, your Committee believes that a Special Committee of the House of Commons should be established to review those on-going projects which now have projected cost over-runs. Such a Committee should investigate capital projects, and determine whether they have satisfied the audit criteria established by the Auditor General. It should also seek clarification and explanation of problem areas from the managers responsible for the initial planning and current management of the projects.

17. Your Committee has received submissions and heard testimony in response to audit examinations which were completed in 1977 and which examined decisions made as far back as the early 1970s. Your Committee has noted that new procedures have been introduced in the interim. Managers who were responsible at the time of the early decisions were seldom available. Witnesses were often the second or third person to

hold that responsibility since the time of the decision. Your Committee believes that it could serve its intended role more appropriately if the Auditor General were to use more often his power to make special reports. In this way, your Committee could direct its attention to matters of current importance and bring about a higher degree of accountability by calling witnesses who are directly responsible for the matter under examination.

## V—EVALUATING EFFECTIVENESS—ANALYSIS OF TESTIMONY

18. Your Committee has heard testimony and has received submissions on the issue of Evaluating Effectiveness, addressed in Chapter 5 of the 1978 Annual Report of the Auditor General of Canada. Effectiveness studies measure the extent to which a program has accomplished its objectives or intended effects. They have the potential to provide feedback to decision-makers and in particular, to Members of Parliament, on whether or not program objectives set out by Members when they passed legislation or allocated public funds have been attained. If the results of evaluations were broadly available, better informed decisions on programs could be made by Parliament, by Cabinet and by managers in government.

19. Program evaluation dates from the first introduction of Planning Programming and Budgeting Systems (PPBS) in the early 1960s. Statements on the impact of programs were an essential feature of the PPBS design—their objective was to provide information on program impact, which in turn was to be used to improve the resource allocation process and make planning and budgeting more realistic in terms of stipulated program goals and government expenditure priorities. By and large, these expectations have not been met. The efforts of technical specialists appear to have been focussed on policy studies and estimates of the impact of new programs rather than on the results achieved by existing programs.

20. Under Section 7 (2) (e) of the Auditor General Act, S.C. 1976-77, c.34, the Auditor General of Canada is required to call to Parliament's attention cases in which he has observed that "satisfactory procedures have not been established to measure and report the effectiveness of programs where such procedures could appropriately and reasonably be implemented". In order to fulfill this responsibility, the Auditor General established a set of audit criteria:

(a) program objectives and effects should be specified as precisely as possible;

(b) program objectives and effects which can be measured should be identified;

(c) procedures to measure program effectiveness should reflect the state-of-the-art and be cost-justified;

(d) the results of effectiveness measurement should be reported; and

(e) evaluations should be used to increase program effectiveness.

21. The audit criteria have been reviewed by your Committee both in testimony from witnesses and in written submissions. They have received broad acceptance as reasonable standards by which to judge the adequacy of the evaluation activities of government. Your Committee endorses these criteria.

22. The testimony and written submissions received by your Committee indicate that very few programs had been evaluated at the time of audit enquiries. Where such work had been done, useful insights into program design and impact resulted. Your Committee commends those departments and individuals which have provided leadership in conducting the early studies of program effectiveness in the Government of Canada. It is clear that additional emphasis placed on evaluation studies will provide valuable information that will enhance our understanding of programs and begin to shed light on the essential question: "Are programs worth the money we are spending on them?"

23. In a government-wide study conducted in 1975, approximately 3,500 person-years were identified with the "Planning and Evaluation" function, including some 267 senior executive positions. Unfortunately, testimony has revealed that, among 23 departments, only 131 person-years were devoted to program evaluation and 62 of those person-years were in one department. However, in spite of the fact that resources within the public service which are focussed on the question of evaluation remain extremely limited, testimony revealed that this important area of management control has received increased attention in recent months.

24. Review of the work done by two departments in the area of effectiveness evaluation gave rise to a variety of important questions about program impact. Both the review of evaluations undertaken by departments and the discussion of questions posed by Members for which no evaluation answers were, as yet, available, illustrate the potential importance to all Members of the results of program evaluation studies. A large number of questions still remain unanswered. Many high priority questions for research have not yet been addressed. Effectiveness evaluations provide essential information to Parliamentarians on the performance of programs in achieving the objectives set out in legislation. Hence, your Committee is of

the opinion that this type of information will be most influential if it is made available to the appropriate committees of the House.

25. The state-of-the-art in program evaluation is progressing steadily, although it is still a relatively new field of specialization. Assessments of the technical adequacy of evaluation work can be complex and occasionally are matters of learned debate. In some areas, there is no clear best methodology and some aspects of program impact cannot easily be measured. Measurements of program impact should therefore be conducted according to recognized standards of scientific enquiry. To this end, it is important that recent work be shared among practitioners so that advances become more widely known and used.

26. Evaluation studies often require that new data be gathered from program participants, be they governmental agencies, organizations, businesses or individuals. Testimony has revealed that, in some cases, participants have not responded to questions designed to assess program impact, thereby frustrating evaluation efforts.

27. Your Committee believes that effectiveness evaluations are a natural component in the accountability process of Government. They provide essential information on what has been accomplished with the funds allocated to Government by Parliament. In view of the fact that government departments table annual reports describing their activities for the year, your Committee is of the opinion that annual reports should feature the results of measurements of the impact of departmental programs.

28. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 5, 6, 7, 10, 11 and 12 of the First Session of the Thirty-first Parliament and Issue No. 9 of the First Session of the Thirty-second Parliament*) is tabled.

Respectfully submitted,

BILL CLARKE

*Chairman*









BINDING SECT. JUN 23 1982

